

WHITHER THE WORLD BANK
AND THE IMF?

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ABSTRACT

On their fiftieth anniversary, the International Monetary Fund and the World Bank were extensively reviewed, both to mark the occasion and to consider, often critically, their current roles and performance. This paper reviews the functions of the two institutions in light of their evolution over the past fifty years and of changes in the international economic system. It then evaluates and assesses some of the criticisms and proposals for reform of the two institutions.

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Whither the World Bank and the IMF?

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The International Monetary Fund (IMF) and World Bank fascinate out of all proportion to their considerable importance on the world scene: they have been the most effective international organizations over the past half century;¹ they have been able to maintain a sufficiently high quality of technical staff so that their pronouncements are widely respected; and their staffs, as international civil servants, deal effectively with many member countries on a variety of sensitive issues.

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¹A good argument can be made that the General Agreement on Tariffs and Trade (GATT), now the World Trade Organization (WTO), has been at least as effective, judging by the liberalization of trade during the half century. However, until the formation of the WTO, the GATT did not have the status of a formal international organization:.

I shall refer to the Bank and the Fund together as the IFIs (international financial institutions) or Bretton Woods institutions, and to the Bank, Fund, and WTO together as the three international organizations.

The Bretton Woods organizations were founded just over a half century ago. Since then, the world and they have changed markedly. Their original rationale no longer fits, and their activities have altered as the world economy has grown. On the fiftieth anniversary of the Bretton Woods organizations, it was therefore natural that there should be a large number of conferences, papers, and analyses of the institutions both retrospectively and prospectively, assessing their past and future. This article reviews selectively some of the key issues raised in the resulting literature.

Two interrelated questions are considered. First, what was the intended role of the IFIs and what role did they in fact play in the highly successful evolution of the international economy over the half century after Bretton Woods? Second, given their successes and failures and the changed international economy, what role do they play and should they play in the next several decades?

Historically, the Bank and Fund made major contributions to the international economy, to some extent in line with the role anticipated for them at Bretton Woods and to some extent in response to altered circumstances. Indeed, their present activities are significantly different from those envisaged initially.

Past criticisms of the Bank and the Fund had elements of truth to them. But, there was considerable learning, much of it spurred or sponsored by the IFIs themselves, and many mistakes were corrected. In this author's judgment, there is no question that the

total product of each institution was large and positive.²

However, the Bank and the Fund's future roles are in need of clarification: the vision under which they were founded is so outdated that both institutions are in need of a restatement of objectives. Many discussions of future role have confounded questions and criticisms about the past effectiveness of the IFIs with assessments of their future. It is quite possible to argue consistently that the IFIs made a major contribution in the past but have no more role to play, or equally to argue that their past contributions were negligible but they can play a major role in the future.

I start with a brief restatement of the initial roles envisaged for the IFIs, and then indicate how those roles played out in practice. Next, analysis turns to the current roles of the Bretton Woods institutions. A third section then considers some of the major criticisms of the two organizations. Thereafter, proposals regarding their future roles are reviewed. A final section summarizes the key issues.

To state the conclusion in advance, for both IFIs, the roles assigned to them at Bretton Woods have either been rendered obsolete by changing circumstances (including their own success in carrying out their initial mandate) or have been filled by other

²This does not, of course, mean that achievements might not have been even greater or that the same results might not have been attained at lower cost. In fact, much -- but certainly not all -- of the criticism aimed at the World Bank has focussed not on its output, but on the high costs it is said to incur in achieving its results.

organizations and institutions. In the case of the World Bank, a strong case can be made for a future role as a supporter of development and provider of technical assistance (including policy knowledge gained from insights arising from comparative experience) for very poor countries, predominantly in Africa and Central and perhaps South Asia. However, there are significant questions with regard to the capacity of the Bank to adapt to this changed and somewhat diminished role.

In the case of the Fund, there are far fewer questions about the effectiveness and capacity of the organization, but a redefinition of its role is a challenging task. In assessing future directions, an interesting and important question is the degree to which competition between the two institutions has resulted in improved performance of each.

1. The Bretton Woods Rationale

The conception of the international economy on which the postwar system was premised was largely borne out of the experience and apparent lessons of the Great Depression. The Bretton Woods architects believed that avoidance of a repetition of the 1930s required international cooperation to prevent the "beggar-thy-neighbor" trade policies and competitive devaluations that they believed had contributed significantly to the length and severity of the depression.³ Simultaneously, it was believed that there would be a strong tendency for the world economy again to enter

³Subsequent research has questioned the extent to which competitive devaluations and erection of higher trade barriers did in fact contribute. See Eichengreen and Sachs (1985).

into depression (secular stagnation) once the war had ended, and the Bretton Woods founders sought to arrange an international structure under which countries could pursue their legitimate domestic anti-depression objectives without being forced to take actions that might "export" unemployment.⁴ The IMF was founded in the expectation that it would serve to meet those objectives.

At the same time, the view was widely held that countries devastated by the war would require more investment than could be financed by domestic savings, and that official capital flows would be essential for reconstruction and development, since private international capital flows had been devastated by the Great Depression.

Hence, the vision was one of three international institutions: one to oversee exchange rate arrangements and to provide temporary finance when balance of payments difficulties did not result from "fundamental disequilibrium"⁵; one to enable official capital flows to facilitate investment where private capital flows were inadequate; and one to oversee trade relations among countries and to provide a framework for an open multilateral trading system consistent with the full employment objectives of individual countries.

The International Monetary Fund and the International Bank for

⁴See Krueger (1997b) for an examination of this issue.

⁵This term was not defined in the Fund's articles, and, to this author's knowledge, has never been given a satisfactory definition.

Reconstruction and Development (IBRD)⁶ were therefore created at Bretton Woods, and it was expected that the charter for the International Trade Organization would be agreed upon shortly afterwards, as the third pillar of the post-war system.⁷

The governance structure of the two IFIs is similar, with shares in the organizations owned by member governments, who then are the "shareholders" of each institution. For present purposes, the particulars need not be of concern⁸ except to note that shares were/are in rough proportion to countries' economic importance, and that the votes allocated to each country are in proportion to their shareholdings. Consequently, the United States and the other rich countries have had a much higher representation in the IFIs than in UN organizations (including the GATT/WTO).⁹

⁶The IBRD subsequently became one part of the World Bank Group which also includes the International Development Association (which lends on concessional terms to poor countries but whose staff is the same as the IBRD's); the International Finance Corporation (the arm of the Bank assigned the task of lending to the private sector); and several smaller institutions providing investment guarantees and investment dispute settlement procedures.

⁷The ITO charter contained a great many provisions safeguarding governments' ability to take trade measure to pursue virtually any domestic objective. The GATT articles were developed prior to the Havana meeting to provide a basis for the first round of multilateral tariff negotiations, with the expectation that they would be incorporated in the ITO Charter. The ITO charter was never ratified. See Dam (1982) for an account.

⁸ See MacBean and Snowden (1981) for details.

⁹ One of the often-expressed concerns about the IMF and world Bank is that there is insufficient "coordination" between them. While they are different organizations and thus can undertake independent (and sometimes apparently conflicting) policies, in principle the governance structure should enable the Executive Directors to impose coordination. While governments typically appoint different Executive Directors to the IFIs, coordination

The IMF.

The basic conception of the IMF's role was that it would oversee exchange rate relationships in a "fixed, but adjustable" exchange rate system. Since the purpose was to enable members to pursue domestic full employment objectives without constraint by the balance of payments or resort to "beggar-thy-neighbor" exchange rate policies, members were to undertake not to alter their exchange rates without IMF approval, which was to be given only in the event it were determined that there was "fundamental disequilibrium" in the balance of payments.

When there was no "fundamental disequilibrium", countries could borrow from the IMF to tide them over temporary imbalances. Thus, it was thought, countries would be free to pursue their objectives of achieving internal balance (full employment) without being forced to subordinate that goal to the dictates of changes in their holdings of gold and foreign exchange or undertaking a devaluation to export their unemployment elsewhere.¹⁰

Initial financing of the Fund (and the IBRD) came from members' paid-in capital. Payments were made partly in gold, partly in convertible currencies and partly in own currencies. Members could then seek to borrow from the Fund in "tranches", which were in proportion to their capital subscriptions. Access to a first

could take place at their insistence if the home ministries to which they report so demanded.

¹⁰For a fuller account of the implicit theory, and of the distrust of market determination of exchange rates underlying the Bretton Woods system, see Kenen (1985), pp. 628ff.

tranche was and is virtually automatic, since it is equal to the gold proportion of paid-in capital. Successive increases in borrowing (tranches) are subject to increasingly stringent oversight or conditions (which is where the term "conditionality" comes from). Stand-by arrangements are associated with upper tranche borrowing. They stipulate performance criteria and are normally disbursed in intervals over a 1-2 year period. Fund lending was and is normally repayable in 3-5 years.¹¹

The World Bank.

Much less attention was devoted to the IBRD in the negotiations leading up to Bretton Woods, in large part because there seems to have been consensus on the need for the institution. As already mentioned, it was generally thought that long-term private international capital flows would not resume after the experience of the 1930s.

The presumption was that war-devastated countries could productively use investment additional to that which could be financed by domestic savings but that private sources would not provide it. The IBRD was supposed to be a financial intermediary providing finance for productive projects, primarily for reconstruction purposes. The IBRD was empowered either to borrow in private capital markets and then itself lend the proceeds or to guarantee loans made directly by private creditors. In practice, the IBRD has lent and made little use of its guarantee powers.

¹¹See MacBean and Snowden (1981) and IMF (1994) for more details. In the 1980s, new "windows" were opened under which the poorest countries could borrow for longer time periods.

In the Bank's articles, it is stipulated that the Bank must lend either to governments or with a government guarantee. Hence, when the IBRD borrows from the international capital market and onlends, its creditors have a double guarantee: that of the borrowing country's government as well as that of the IBRD.¹²

As an intermediary, the IBRD monitors the activities of its borrowers, and presumably does so at lower cost than individual lenders could do. The IBRD enables those borrowers that are creditworthy to access international capital markets on more favorable terms than they could otherwise because they can use the IBRD's creditworthiness. For some developing countries now, and many in the past, access to private capital markets has not been an option, so that lending from the Bank has been the only feasible source of long-term finance. For some highly creditworthy countries such as Korea and Thailand, IBRD lending rates have not been significantly below the rates governments have been able to obtain on their own, although the repayment period has been somewhat longer (usually a decade and a half or more). For other countries, such as Russia and Mexico, the IBRD's lending rate has been significantly below commercial rates even though those countries had some access to private markets.

Early Roles of the Bank and Fund.

Immediately after the Second World War, economic dislocation was so great that the Bank and Fund resources were dwarfed by those of the U.S. in the reconstruction effort. Neither institution was

¹²IBRD lending has not exceeded its capital plus reserves.

immediately able to make a major contribution.¹³

However, as reconstruction progressed, the Fund was increasingly involved in individual countries' balance of payments difficulties and adjustments. Until the 1970s, the international monetary system was based largely on the fixed-but-adjustable exchange rate system envisioned by Bretton Woods and the Fund played a significant role in many early balance of payments crises.¹⁴ While many of its programs were in developing countries, supporting moves away from multiple exchange-rate systems, working to liberalize quantitative restrictions on imports, and attempting to bring down inflation, it was also involved in developed countries' difficulties, including France and the United Kingdom in the late 1960s.

While few questioned the usefulness of the Fund in supporting the fixed-but-adjustable exchange rate system, many analysts began to question the wisdom of the system itself.¹⁵ Difficulties were seen in the increasing rigidity of exchange rates and the emergence

¹³The U.S. extended \$6.2 billion to European countries under the Marshall Plan in 1948-49, \$4.1 billion in 1949-50, and \$2.2 billion in 1950-51. The Fund lend about \$125 million to France but was basically excluded from European operations because of disagreement between the U.S. and the U.K. over dismantling exchange controls. The IBRD's lending to Europe was also very small -- less than \$1 billion -- during the reconstruction period. See James (1996, P. 74) for details.

¹⁴Sturc (1968) provides accounts of early stabilization programs in Finland, Spain and Turkey. See also James (1996) for a fuller discussion of early Fund programs.

¹⁵Triffin (1957) was among the first to raise questions and strongly criticized the Fund as incapable of handling the emerging issues associated with the system. See James (1996), Pp. 155ff. for an account.

of a de facto dollar-exchange standard with the asymmetric pressures it placed on deficit and surplus countries. By 1973, fixed exchange rates were abandoned, and the Fund had lost much of its original rationale.¹⁶

Meanwhile, as many countries gained their independence from former colonial powers, the role of the World Bank as a lender for development projects, predominantly in infrastructure, expanded, replacing its earlier role, which had been confined largely to financing reconstruction.¹⁷ In so doing, the Bank became a provider of technical assistance as well as of capital. It is often forgotten how limited institutions and government staffing were in developing countries in the early days of independence. Ministers often had little or no experience, ministries were often staffed with people with few credentials, and governments themselves were operating under new constitutions and institutional arrangements.¹⁸ Bank standards for formulating and executing projects, as well for policies pricing outputs of power and other projects, were valuable in improving the quality of projects more generally.¹⁹

¹⁶See Bordo (1993) for an analysis.

¹⁷There were several IBRD loans to the European countries, and the IBRD lent significantly to Japan in support of reconstruction. The World Bank still makes occasional reconstruction loans after events such as earthquakes or civil wars.

¹⁸Wolfgang Stolper (1969) provides an illuminating discussion of some of the challenges for the Nigerian case.

¹⁹ See Mason and Asher (1973). Bank insistence upon cost-benefit analysis and project appraisal was not only important for Bank projects, but was probably instrumental in embedding these techniques in borrowing governments' practices with regard to domestically-financed investments.

As the Bank's efforts shifted to development in the mid-1950s (an emphasis not foreseen by the postwar planners), it became evident that it was desirable for some lending to be directed toward the private sector and the International Finance Corporation (IFC) was established as an entity to lend to private sector ventures. Until the 1990s, the IFC was relatively small contrasted with IBRD and IDA.

By the late 1950s, it was also concluded that a number of poor developing countries were insufficiently advanced to borrow on IBRD terms. When projects were for infrastructure such as roads, where pricing for the services of the infrastructure did not appear a feasible option, it was generally thought that borrowing on commercial terms -- even with a longer maturity -- did not make sense.²⁰

The response was to create the International Development Association (IDA). IDA was to function in parallel with IBRD, using the same criteria for project evaluation, but extending financing to poor countries on highly concessional terms. Naturally, IDA financing had to come from the industrialized countries, which have every three years determined the level of IDA financing for the following three years, and provided IDA "replenishments". In practice, IDA and Bank staff were and are the same. The difference is apparent only in the terms accompanying financing: IDA gives "credits" while the IBRD makes "loans". The IBRD, the IFC, and IDA became collectively known as "the World Bank Group", or World Bank.

²⁰See Krueger (1986) for an elaboration of this argument.

It is a testimonial to the effectiveness of the World Bank that, by the early 1970s, the U.S. - which was then the dominant provider of foreign aid to developing countries - decided to rely more on the World Bank and reduced its own staff for foreign aid significantly. Indeed, until the early 1980s, Bank lending and IDA credits were increasing in importance as a source of development finance. Another testimonial to the success of the Bank in its early years was the move to form regional development banks. These banks were modelled closely on the World Bank, and included the Asian Development Bank, the Interamerican Development Bank, and the African Development Bank.²¹

Contrasts between Bank and Fund Functions and Operations

Fund programs normally entail agreed-upon performance criteria (a change in the nominal exchange rate or in the exchange rate regime, ceilings for domestic credit, upper limits on the size of total or incremental fiscal imbalances, and so on) that can be monitored during the life of the program. Negotiations leading up to agreement on a program can therefore be somewhat adversarial in nature, especially when the motive for seeking Fund support is more to obtain quick foreign exchange to finance imports than to reform the underlying economic policy stance. Moreover, since balance of payments difficulties are normally symptomatic of unsustainable levels of expenditure, the conditions negotiated in Fund programs often must of necessity result in at least a temporary retardation

²¹There are also a large number of official lending institutions for smaller geographic groupings.

in the rate of economic growth, if not a recession. Because of this, Fund programs have often been subject to political attack.

The Fund has generally avoided insisting on either expenditure cuts or tax increases, focussing its "conditionality" on the size of the deficit and leaving decisions as to the split between these two to domestic policy makers. By and large, background data regarding conditionality in Fund lending and annual consultations were not publicly reported. Fund staff documents were and are released only if the country under discussion agrees to publication. This lack of transparency (which, to at least a degree, is surely necessary when issues such as exchange rate policy are discussed) has also been a source of discontent with Fund (and, to a lesser degree, Bank) activities.

By contrast, Bank lending in support of projects carries few negative overtones.²² Ministers of agriculture, energy, transport, and other sectoral domains are normally pleased to have financing to undertake additional projects. Negotiations leading up to a project normally entail technical collaboration between, e.g. officials in the Ministry of Agriculture responsible for irrigation and IBRD technical staff, which is inherently less confrontational

²²To be sure, Bank staff have urged recipients to alter policies, such as pricing of electricity, that might affect the viability of the project in question. Such urging has, however, been low-key and far less visible both at the time of negotiations and when and if policies are altered than have been Fund programs. A partial exception arises in the case of lending in support of agricultural projects, in cases where suppression of food prices to consumers has been identified as a source of difficulty. However, even then, Fund programs have been at least as likely to result in the reduction or elimination of food subsidies as have Bank projects.

than IMF negotiations.²³

The Bank has continuing operations and interests in a larger number of countries than the Fund, since most eligible borrowers are continuously seeking to develop new projects which are the subject of ongoing negotiations. Bank staff have historically been regarded by most as "friends of developing countries". By contrast, the Fund's activities at any given time are confined to a smaller number of countries where balance of payments difficulties are or have recently been extreme, negotiations have often been confrontational, and suspicion of IMF policies and activities has been far greater than that of the Bank's.

In preparation of loans, there has usually been a great deal of attention to institutional and other issues surrounding the lending, and a technical assistance component to the loan. However, once a loan is approved, Bank staff have little to do directly with project implementation²⁴. Nonetheless, development of new projects has led to virtually continuous involvement and interaction with

²³This is not to say that there cannot be differences over such issues as the size of the project, the pricing policies to be pursued in such areas as energy, water and power, and the degree to which maintenance work will be undertaken by the borrowing government. But if disagreements are serious, the Bank can always move along to another project, whereas Fund issues cannot be avoided and the fundamental need to reduce excess demand often places the Fund in an adversarial position.

Moreover, for most of its history, a key performance indicator for Bank staff has been the volume of lending. As such, Bank staff often have as much interest in reaching agreement on a loan as do recipients.

²⁴To be sure, procurement procedures are monitored and other measures taken to try to insure that funds are utilized for their intended purpose.

local officials in most borrowing countries.

Changes in the World Economy and in Bank and Fund Functions

At the same time, the oil price increases, and especially the 1979 one followed by a worldwide recession,²⁵ resulted in severe payments imbalances for a large number of developing countries. Thus, as the IMF role with fixed exchange rates among developed countries was seen to terminate²⁶, an expanded role for facilitating balance of payments adjustment in developing countries emerged. This situation basically lasted throughout the 1980s and to the present time.²⁷

The IMF increasingly focussed on developing countries, their

²⁵After the first oil price increase, developing countries were able to borrow, in most cases, predominantly from private capital markets. For the most part, they were able to maintain debt-servicing obligations because of the increase in the prices of their exports that accompanied the worldwide inflation which was taking place. Virtually all debt prior to the late 1970s had been extended at fixed nominal interest rates which were well below worldwide inflation rates. Hence, continued borrowing did not result in a significant increase in the closely-watched debt-export ratio.

²⁶Any role that might have arisen with respect to liquidity creation through the issuance of SDRs was clearly irrelevant in light of the worldwide inflation of the latter half of the 1970s.

²⁷Most developing countries at that time were invoking the balance of payments clauses in the GATT articles to rely on quantitative restrictions to contain imports. They maintained fixed nominal exchange rates in the face of domestic inflation for extended periods of time, and import licensing became increasingly restrictive. When countries, already greatly restricting imports because of the failure of export earnings to increase, were then confronted with the increased price of oil, many of them were confronted with major economic dislocations.

payments imbalances and other macroeconomic difficulties.²⁸ Throughout the 1970s, the World Bank essentially continued its project-lending mode, although as experience mounted, it became more and more evident that the success of individual projects was crucially dependent on the overall economic policy environment in which the project was carried out. By the late 1970s, it was probably a safe generalization that the Fund concerned itself with macroeconomic policies in developing countries (including exchange rates, trade regimes and financial markets) while the Bank was lending or extending credits for microeconomic and infrastructure investments in those same countries.

Criticisms of the two institutions diverged because of these roles. On the one hand, most critiques of the Fund centered on its "conditionality", or set of conditions under which it would lend, as being too "harsh".²⁹ By contrast, the Bank was seen as being "too friendly" to developing countries and insufficiently critical of their policy framework.

With the second oil price increase, Bank staff began increasingly to recognize the importance of the macroeconomic policy framework for economic development. "Structural Adjustment Lending" (SAL) began. This represented a significant departure from

²⁸There are annual "consultations" between Fund staff and the relevant economics teams in individual countries, both developed and developing. Fund Staff can, of course, express unease at a country's policies, and warn of the likelihood of future difficulties if action is not taken. However, these admonitions are taken much more seriously in situations where financing is, or may be, sought.

²⁹ See Guitian (1995) for a discussion of Fund conditionality.

earlier project finance, as SALs, like Fund loans, essentially provided rapid-disbursing foreign exchange to support policy reforms.

As developing countries were gradually recovering from the impact of the debt crisis, both institutions were challenged by the problems associated with transition in the former Soviet Union and Eastern European States. After the fall of the Berlin Wall, each institution increased staffwork on transition issues, shifting some staff from earlier assignments and recruiting for the purpose.

In a sense, by the late 1980s and early 1990s, the difference between the two institutions centered upon the "givens". The IMF essentially based its programs on the magnitude of the imbalances to be corrected, taking resource availability as given. The Bank's essential role was to increase resource availability, thus reducing the magnitude of required adjustment costs. However, given the huge challenges, Bank resources were relatively small, and could do little more than mitigate a small part of the impact of the required shifts in developing countries. Hence, the Bank's attention to structural adjustment was focussing on ways of obtaining more efficient use of existing resources while increasing the resource envelope, while the Fund's attention was directed to enabling countries to maintain sustainable balance of payments positions despite large structural adjustments.

By the early 1990s, therefore, both the Bank and the Fund were addressing issues of policy reform in developing countries. The Bank still engaged in a great deal of project lending, but even

much of that was conditioned on such actions as appropriate pricing for power or water, an investment program that demonstrated promise of reasonable economic efficiency, and commitments to reform state enterprises or improve infrastructure maintenance. The Fund continued to center its attention on issues related to the balance of payments and exchange rates, although it was increasingly recognized that the entire gamut of governmental activities and policies --including state-owned enterprise pricing policies, actions to provide a social safety net, and other actions that had earlier been considered of relevance almost exclusively to the Bank --affected fiscal balance and other key variables.

2. Current Roles of the Bank and Fund

Negotiations in the 1940s leading to the establishment of the three multilateral economic institutions were undertaken with a fairly clear analytical framework and understanding as to what their role was to be. The world has clearly changed. It is no longer possible to argue a "missing market" rationale for official capital flows from the World Bank (and the regional development banks), and the system of "fixed, but adjustable" exchange rates, which was seen to be the solution to the international monetary problem and which the IMF was designed to orchestrate, has been abandoned.³⁰

³⁰It can, of course, be argued that private capital flows to developing countries are on terms that are too short, are not available in a timely fashion, or that there are other market failures. Many observers are highly skeptical of the "rationality" of short-term capital flows, and swings in capital flows, to developing countries. In the case of Fund operations, it has also been argued that private surveillance of countries' policies is

As already seen, the Bank and the Fund have adapted their roles to changing international economic circumstances. A question then arises as to whether there is an analytical rationale, analogous to the "market failure" rationales of the 1940s, for their current set of activities. In this section, various suggestions of such rationales are reviewed. Thereafter, the criticisms that have been levied against the Bank and the Fund are considered, and a final section then comes to proposals for reform.

To date, efforts to develop a rationale for the roles of the IFIs consistent with the international economic realities of the 1990s have been few. In this section, consideration is given first to the analytical frameworks that have been put forth for defining or evaluating the roles of the institutions; thereafter, the applications of those frameworks to the particular circumstances of the international monetary system and international capital flows are each examined.

The starting point in analysis of any international institution is the absence of a world government and the possible existence of public goods or externalities.³¹ From that starting point, there are three - not necessarily mutually exclusive - ways

often too late for least-cost corrective action. See Mussa et al (1994).

³¹See Kindleberger's (1986) Presidential address on the subject. Kindleberger identified the international public goods most interesting to him as "trading systems, international money, capital flows, consistent macroeconomic policies in periods of tranquility, and a source of crisis management when needed. By the last I mean the maintenance of open markets in a glut and a source of supplies in acute shortage, plus a lender of last resort in acute financial crisis..." (p. 8)

to proceed. One way is to examine the incentives for, and potential gains from, cooperation and the possibility for framing rules or institutions that can permit attainment of an outcome Pareto-superior to an international regime of laissez-faire. A second way to examine the need and roles for international institutions in the world economy is to inquire as to the sorts of international public goods and/or externalities that may exist when international transactions take place and alternative mechanisms for supplying them. A third is to proceed with an analysis of "what could be done better" without an appeal to any explicit model of intergovernmental behavior.

If one can demonstrate that there are Pareto-superior outcomes or sufficiently large externalities, a clear rationale for the institutions could result. It would not, of course, automatically follow that the IFIs are in fact behaving in ways likely to capture the externalities or move to the Pareto-superior outcome even if such a rationale exists. If, however, a rationale exists, and the potential gains appear sufficiently large, one could propose reforms that would better capture the potential gains.

Several preliminary issues should be addressed. The first has to do with the proposition that national governments undertake several types of functions, which can broadly be classed as economic efficiency-enhancing and redistributive. In the absence of a supernational authority, it seems clear that the basic rationale for international institutions has to be that they enable

efficiency-enhancing measures to be taken in the world economy. It seems very unlikely that an institution engaged largely or explicitly in attempting redistributive tasks as its main function would ever be inaugurated, much less supported, by the national governments on the paying side of the redistributive process.³²

A second issue concerns the range of international functions that are filled outside the IFIs.³³ Regional development banks have already been mentioned and will be discussed further below. The Bank for International Settlements has been important in setting standards of capital adequacy, permitting coordination of central banking functions, and achieving a number of other monetary coordination tasks. The OECD has been an arena in which members have agreed to limit the amount of subsidies in export credits, develop standards for financial liberalization, and otherwise coordinate policies. The G-7 has permitted a degree of coordination of macroeconomic policy among the countries involved.

On other issues, there are a myriad of other international organizations. Whether there should be multiple organizations is a

³²It may be objected that the IDA component of the World Bank is redistributive, and that that is an exception to the generalization. While true, it should be noted that: 1) IDA was formed at a time when U.S. economic power was still dominant and when the U.S. supported it as a means of "burden-sharing" in the context of an environment supporting concessional assistance to developing countries; and 2) the average annual resources allocated to IDA have never exceeded \$6 billion U.S. This compares with total net flows of \$60 billion in 1994. See Table 5.

³³There is also an issue of coordination, or overlap, between the IFIs and the WTO. In the parlance of the international community, the achieving "coherence" between trade, exchange rate, monetary, and other policies is a major concern.

question far outside the scope of this paper, but in any overall theory of organizational design, it would surely come prior to focus on the role of particular international organizations.

Yet another question, which has hardly been addressed in the literature, is how functions should be assigned across organizations. This includes not only whether, e.g. BIS should handle central banking functions while the IMF handles international monetary arrangements, but more fundamental questions such as the principles upon which one might divide up (or centralize) coordination functions between governments. One can argue for a "one instrument-one target" approach, but when issues are interrelated (such as monetary policy and exchange rates) there are a priori grounds for believing that consistency across functions may be economically efficient.

Then, too, it can be argued that some "competition" across international organizations may be efficient, in that the failure of any one organization to meet the needs of the international economy will likely be met by another one anxious to expand its mandate. Issues of optimal global institutional design, however, have received little attention. In this paper, therefore, issues of optimal global design and of competitor institutions are ignored, except when they are central to a particular policy question under consideration.

There are two, somewhat distinct, sets of issues. A first concerns the Fund's role in the international economy, and in particular whether a superior outcome can be achieved with

macroeconomic coordination. If it could be, one obvious candidate to orchestrate that coordination would be the IMF. Currently, coordination occurs primarily among the large countries, normally the G-7 or a subset of it. Even if coordination is desirable, an issue discussed below, a question arises as to the international institution(s) best suited to undertake the activity. That set of issues is considered first. Giving the Fund a key responsibility for international macroeconomic coordination would move it considerably closer to the role initially envisaged for it than the activities it is undertaking currently.

The second set of issues concerns the rationale for the current bundle of activities the Bank and the Fund take in their roles with respect to individual developing countries. There, questions arise with respect to the bundling of activities (lending, policy advice, information, training, and research) and the division of labor between the two. Issues of rationale are discussed here; criticisms are left to the next section; proposed reforms are considered thereafter.

Potential Cooperative Gains in Macrocoordination?

In principle, exchange rate regimes cannot and should not be considered except in the context of a particular set of macroeconomic policy regimes in the countries whose exchange rates are under consideration. Yet in practice, insofar as macroeconomic policy coordination has been analyzed or implemented, it has largely been outside the framework of the IMF, while discussions of exchange rate policy have normally been in the context of the IMF.

That practice is followed here, for several reasons. First, the literature on the theory macroeconomic coordination is itself huge and can only briefly be mentioned. Second, macroeconomic policy coordination cannot be considered without regard to the existence of other international institutions. Indeed, it can be argued that insofar as there is macroeconomic coordination, that function is carried out between the BIS and the G-7, and that the IMF either never had or abdicated these functions. Most of those functions are carried out informally, taking place when there is perceived need over a specific issue. Whether or not the IMF could or should assume (or reassume) these functions is addressed implicitly or explicitly in some of the reform proposals discussed below. However, discussion of the appropriate institutional arrangements for macroeconomic coordination has not progressed very far, in large part because there is sharp disagreement over the possibility of gains from such coordination.³⁴ Feldstein (1988) has been prominent in articulating the potential dangers of macroeconomic policy coordination.³⁵

At a theoretical level, questions currently center largely on

³⁴ There are also serious questions about feasibility except in circumstances in which all would gain, given the intensely political decisions affecting fiscal and monetary policy. When all would gain, it can be argued that the need for an institutional mechanism is greatly reduced, although discussions about the European Union focus to some degree on this issue. For a good discussion of the problems of coordination, see Cooper (1985).

³⁵ In the early postwar years, the experience of the 1930s led many to believe that macroeconomic coordination was virtually the bedrock which any well-functioning international economic system would require.

the scope for bringing about a better equilibrium through macroeconomic coordination. Clearly, there can be spillovers from national macroeconomic economic policies. The existence of these spillovers certainly makes it possible that coordination failures might result in inefficiencies. Hamada (1974) demonstrated the possibility of such inefficiencies; since then a large literature has developed on "international policy coordination".³⁶ However, it is also possible that governments are not motivated as "benevolent social guardians" but instead respond to narrower political interests. In that case, it is possible and perhaps likely that a "distortion" caused by collusion among politically motivated governments could render a cooperative outcome worse than a noncooperative outcome.

Most analyses have focused on monetary or fiscal policy coordination. Most of what has been done on international coordination of fiscal policy has been done in the context of the European Union, or other arrangements to sustain a cooperative outcome with respect to issues such as tax harmonization. Since in fact, the IMF has had little role in fiscal coordination -- especially among the large industrial countries where the OECD and the G-7 have provided whatever coordination mechanisms there were - there has been little application to the IFIs.

Analyses have progressed further with respect to monetary coordination, although again little reference has been made to the

³⁶See Persson and Tabellini (1995) for an account and a survey of recent theoretical developments.

IFIs. Persson and Tabellini (1995, P. 2003) note that most analyses of coordination of monetary policy used reduced-form relations between macroeconomic outcomes and policy instruments, based largely on the Fleming-Mundell model.³⁷ In models in which the (monetary) authorities value low inflation and high output (or low unemployment, or improved terms of trade), international cooperation can bring about a more or less desired outcome depending on the mechanisms through which commitment of national governments can take place (to overcome credibility problems) and on the degree to which individual countries can "import" real income at the expense of other countries. Thus, with two domestic constraints, it is not clear which will dominate and, in a second-best world, cooperation may or may not be preferred to noncooperative solutions.³⁸

The Role of the IMF with Regard to Exchange Rates.

While it is logical to link the discussion of macroeconomic policy coordination to that of exchange rates, the fact that the IMF started as an institution to oversee balance of payments issues in the context of exchange rate arrangements to avoid international conflicts over payments imbalances has meant that most analyses of the Fund's role focus on exchange rate issues. In large part, this

³⁷For later reference, it should be noted that the Fleming-Mundell model was developed in the Research Department of the International Monetary Fund.

³⁸In an interesting analogy to the customs union literature in trade theory, it has also been shown that monetary cooperation among a subset of countries need not improve the outcome for them even in circumstances where cooperation among all countries would. See Canzoneri and Henderson (1988).

came about because the architects of Bretton Woods believed that they had established an exchange rate regime which would free countries' domestic policies from the dictates of their international payments positions. If each achieved its full employment objective, and the IMF oversaw exchange rate arrangements and provided financing to cover payments imbalances, it was assumed that coordination of macroeconomic policies would have been achieved.

In light of the Fund's relatively small role and poor prospects with respect to any greater role in macroeconomic coordination, as well as the lack of intellectual consensus on the topic, it is therefore not surprising that analysis of the Fund's role centers largely on exchange rates.

The intellectual consensus supporting a system of fixed but adjustable exchange rates as an underpinning for the International Monetary Fund was never unanimous. In the early 1950's, Friedman (1953) challenged the case for fixed exchange rates, arguing that a float would serve the world better. However, policy makers adhered to the fixed but adjustable exchange rate formulation until the early 1970s, and by and large, the Fund was seen as an important international institution³⁹ until the breakdown of the Bretton Woods system.

Since that time, debate over the appropriate international

³⁹See, for example, Haberler (1964), P.9, who argued that the sequential devaluations of the 1930s were unnecessarily painful and that it "was like cutting off the tail of a dog piece by piece instead of all at once, the way it surely would have been done had there existed the International Monetary Fund."

regime for exchange rates has continued. For some, the abandonment of fixed exchange rates implied the end of the need for the International Monetary Fund.⁴⁰ Certainly, as has been seen, the role of the International Monetary Fund with respect to developed countries' exchange rate policies was greatly diminished, although it would be difficult to argue that it ever was preeminent, especially for the large industrial countries. Indeed, as noted earlier, exchange-rate coordination among the large currencies has taken place away from the IMF, as evidenced by such arrangements as the Louvre Accord and the Plaza Accord.⁴¹

However, the Fund plays a major role in developing countries when balance of payments pressures or speculative attacks lead to exchange-rate changes. That role has two elements. First, the Fund often lends in support of exchange rate (and necessary accompanying policy) changes. As such, its policies regarding what is considered appropriate exchange rate regimes are a significant influence on the functioning of the international economic system. Second, the Fund has played an important role in "crisis management", when

⁴⁰Corden (1981) termed the system following the abandonment of Bretton Woods a "laissez-faire" system. See the discussion in Black (1985). Friedman (1983) was also among those who argued that the Fund had lost its function with the abandonment of fixed exchange rates.

⁴¹See Padoa-Schioppa and Saccomanni (1994) for an analysis of the needs for monetary cooperation, supervisory coordination (of foreign subsidiaries of banks), and the evolution of the system in those dimensions. Padoa-Schioppa and Saccomanni set forth the institutional characteristics and functions they believe should prevail (see Sect. 6 below for a discussion). They note that the IMF could have, but did not, assume these functions and identify the BIS as the international institution coming closest to meeting their objectives (P. 263).

there was a threat, or a possible threat, of systemic consequences of individual countries' difficulties. Certainly the Fund played an important coordinating role in the debt crisis of the early 1980s, when it was thought that there was systemic risk resulting from the inability of countries to continue servicing their debt voluntarily.⁴²

As to exchange rate policy for developing countries, Fund policies have altered over time. In early years, the Fund -- as governed by its Articles -- attempted to achieve a unified, fixed, nominal exchange rate. More recently, of course, other forms of exchange rate management have been acceptable. As new issues arise and experience accumulates, the Fund reacts. At the time of writing (summer 1997), exchange rate policy for developing countries in light of high capital mobility is a key issue.

Some proposals for future roles of the Fund include greatly increased capacity for crisis management. This possibility is therefore further discussed in Section 4 below.

Policy Advice of the Bank and the Fund.

Although the Fund advises on exchange rates, both the Bank and the Fund are concerned with the economic policies pursued by individual developing countries. On one hand, experience has taught that the real returns on any investment in a country are in significant part a function of the overall macroeconomic framework within which investment takes place. Hence, the World Bank focuses

⁴²See, for example, Sachs (1989).

on policy issues even when undertaking project lending.⁴³ And, since it is abundantly clear that overall economic policies are a significant factor in influencing rates of economic growth, the World Bank's focus on development implies a concern with these issues. That the same set of issues are central to the Fund's support of balance-of-payments programs should be self-evident.

A strong case can be made that the functions of lending, policy advice, training, research, and provision of information of both the Bank and the Fund are mutually complementary and that the spillovers from each of these functions to the others are large. Moreover, it can certainly be maintained that more rapid sustainable growth of developing countries promotes a more efficient use of world resources and therefore generates at least some degree of externality for developed countries.

Here, the individual components of the country-support programs are first discussed individually. Then the synergies between them are considered.

It can be argued that the rest of the world, along with the individual country in question, has an economic interest in seeing policies in developing countries that result in greater economic efficiency, more rapid economic growth and open trading regimes. When individual countries are in a bad (political or economic) equilibrium, Fund and World Bank resources and advice may be

⁴³There is little point in lending to support increases in agricultural productivity through research and extension activities, for example, if producer prices for agricultural commodities are significantly depressed through domestic policies or the exchange rate.

fruitful in facilitating the shift to an alternative equilibrium. To the extent that Fund and Bank advice and resources can either shift the political balance to a new equilibrium more rapidly, or influence the new political equilibrium in ways that improve the economic outcome, there can be efficiency gains for the international economy as a whole.

There is little question that the Fund and Bank have played a useful role in some countries in this regard, and probably have also facilitated international capital flows by providing investors with some assurances that even in worst case scenarios, the possibility of a IFI-supported program can enable policy reform and resumption of satisfactory economic performance.⁴⁴ To the extent that the benefits to the rest of the world from better economic performance of a particular country are widely spread, an international institution that facilitates those benefits is likely to be more effective than the efforts of scattered private creditors (or bilateral donors) each of which would receive only a fraction of the spillovers from a changed economic regime.

The question, then, is not whether the role is valuable, but whether the Bank and Fund play it better than it would be carried out by other institutional arrangements, presumably through the private capital market. One can only speculate as to the answer. But several considerations suggest that the Bank and the Fund may

⁴⁴See, however, Bandow and Vasquez (1994) and the papers therein, for an argument that the existence of the Fund has enabled countries to pursue more reckless economic policies than would otherwise have been chosen.

be better positioned to play this role. First, by virtue of their status, they can coordinate information, and thus provide a public good, saving individual potential private creditors the cost of obtaining the information individually. The "Good Housekeeping Seal of Approval" has repeatedly been demonstrated to be valuable to private creditors. Second, because of their lending function, the IFIs have at least some incentive to assure that prospects are reasonably bright before lending and hence, they could not provide the information role without the lending role.⁴⁵

The Fund's work, by its nature, has focussed on key policy issues, centered around the exchange rate. Fund programs are normally initiated when countries find themselves in balance of payments difficulties, with foreign exchange obligations in the near-term that cannot be met. Until the 1980s, "stabilization programs" almost always entailed changes in the nominal exchange rate (sometimes accompanied by adoption of a rule for further inflation-related changes) and agreed-upon ceilings on domestic credit. In addition, agreement would be reached to alter other key factors significantly contributing to excess demand (such as controlled prices of loss-making state enterprises or nominal interest rates well below inflation rates). Fund programs, normally of two years duration, would often contain semi-annual targets, with tranches of a loan being released at these intervals if the

⁴⁵It may also be true that a lot of information is gathered in the process of developing loans that might otherwise be hard to come by.

targets were achieved.⁴⁶ In the mid-1980s, the Fund and World Bank increased their collaboration in addressing policy questions in individual countries, but the basic division of labor between the Fund and the Bank continued.⁴⁷

Whereas the Fund has focussed its policy advice on much the same set of macroeconomic issues over time, the Bank has always concentrated primarily on issues affecting resource allocation. As already seen, however, until the 1980s its policy advice was relatively narrowly focussed on the issues directly associated with its project lending: borrowers would be asked, for example, in connection with lending for power projects, to adopt pricing policies for electricity which would insure a sufficient financial return to permit maintenance of the facility and an adequate return on capital.⁴⁸ By the 1980s, this concern broadened, not only in project lending,⁴⁹ but as the necessity for policy reform was

⁴⁶In practice, failure to meet targets sometimes led to cancellation of later tranches of a loan, sometimes to renegotiation of targets, and sometimes simply to delays in releasing additional funds.

⁴⁷Since the early 1990s, the Bank has increased the proportion of project lending significantly. This could be interpreted to be the result of completion of structural adjustment, or it could be the abandonment of the concept or of the task (with its transfer to the IMF). It is not clear to this author which, or what combination, of these explanations accounts for the change.

⁴⁸Of course, Bank staff discussed broader policy issues with representatives of the borrowing government. But the "conditionality", such as it was, was generally confined to these narrower, directly project-associated issues.

⁴⁹By that time, it had become evident that the real returns on individual projects were higher in countries whose overall economic performance was preferable, regardless of the type of economic activity for which lending had taken place. See World Bank (1981),

recognized through structural adjustment lending.

Few observers question the value of the preponderance of the Bank's and the Fund's policy advice. Although purists can disagree with the institutions' failure to push "far enough" for reform, policies in many developing countries were so inimical to satisfactory economic performance that staff were normally seeking changes in the appropriate direction, if not of an appropriate magnitude.⁵⁰ And, as is discussed further below, there are questions as to how binding are the political constraints on politicians undertaking policy reform.

Gavin and Rodrik (1995) provide one of the few analyses of the interrelationship of IFI activities with regard to individual countries. Although their focus was exclusively on the Bank, their analysis can apply equally to the Fund. Their work provides a good assessment of the Bank's role with respect to policy advice:

"...It is more plausible to locate the Bank's comparative advantage in assisting development in the presence of weaknesses and distortions in member countries' domestic political processes than in overcoming the international capital-market imperfections that so concerned its founders....The Bank's role as policy adviser and institution-builder has been the key to its impact on economic development."⁵¹

which was one of the first public statements of these linkages.

⁵⁰For analyses of a variety of Fund policies, see the essays in Williamson (1984). For a review of Fund conditionality, and a listing of all Fund programs, see Guitian (1995).

⁵¹Gavin and Rodrik (1995), P. 331.

Estimating the impact of the policy advice is difficult.⁵² First of all, there are always a variety of groups within governments, some of which oppose and some of which support change. Bank staff and the possibility of resources can strengthen the supporters of reform and weaken the resistance of some opponents. Judging whether policy reform was pushed "hard enough" is problematic. Second, it is not always clear when, and to what extent, policy advice has been accepted. Bank staff may for years advocate reforms before change can occur, but at least in some instances it is demonstrable that earlier discussions influenced policy makers at key points. Third, some governments want to claim credit for policy reform under all circumstances, while others want to blame the entire set of policies on foreign devils. Given diplomatic constraints on the behavior of participants, the true negotiating positions are often not known.

Given the value of policy reform and the shift to a better equilibrium, the question is why the World Bank and the IMF should have a comparative advantage, as contrasted with bilateral aid programs, or private capital markets. In contrast with bilateral aid programs, Gavin and Rodrik (1995) have provided one partial answer:

"...The Bank is not generally considered the 'property' of any country or group of countries. The Bank's policies often attract enormous hostility from both governmental and nongovernmental

⁵² On this issue, see Krueger, Ruttan and Michalopoulos (1989), Chapter 6.

observers but because of its international character the hostility generated by unpopular advice and conditionality is almost certainly less, and its ability to withstand political pressures substantially greater, than could be true of any national development agency."⁵³

It could also be argued, of course, that the costs of learning a sufficient amount about economic policies in a country are sufficiently high that it does not make sense for many individual industrialized countries each to invest in that effort, and that a pooling of the costs is economic.⁵⁴ This was, to a considerable extent, the rationale behind the Peterson Report⁵⁵, which shifted U. S. foreign aid efforts more toward the World Bank and the IMF and removed much of the capacity for macroeconomic policy evaluation from the Agency for International Development.

As to why private lenders cannot perform Bank and Fund functions, the answer is more complex. The coordination function, discussed above, may be one best done by a single agency; to that

⁵³Gavin and Rodrik (1995, P. 330).

⁵⁴It has been argued that Bank and Fund's policy advice prevents receipt of conflicting advice from different donors. The Bank and Fund have organized "consortia" of countries financing particular policy reform packages and have, thus, played the role of coordinator on many occasions. However, there are also reports of receipt of conflicting advice from different agencies. There are also legitimate concerns about any establishment of a "monopoly" of advice, especially when the determination as to relative quantities and importance has a sizeable judgmental element. As will be discussed below, there have even been times when Bank and Fund advice have conflicted.

⁵⁵Task Force on International Development
y (1970).

extent, a competitive market could not spring up in the business of evaluating developing countries' programs.⁵⁶

In part, private agents do perform these functions. However, the general experience is that private creditors are unwilling to extend credit unless the Bank and Fund have first signalled their acceptance of economic policies. Rodrik (1995, P. 179) cites an instance in Peru where private lenders attempted to take on monitoring functions, only to abandon them within a short period of time. In Mexico in 1985, private lenders were unwilling to roll over loans unless the IMF certified that Mexico's policies were adequate to warrant a Fund program, even though Mexico did not seek an actual Fund program at that time.

However, increasingly in recent years, private capital flows have been sizeable to countries without Fund or Bank programs. As private capital markets are increasingly able to finance the excess of profitable investment opportunities over domestic savings, important questions will center on the ways in which those markets are able to differentiate between countries based on their economic policies and prospects (and thus force policy corrections in countries with policy stances inimical to satisfactory economic performance), and whether in circumstances where policies have been poor and a reform effort is underway, private capital markets will in fact support it.

It is a reasonable conclusion that private creditors have

⁵⁶To be sure, there are private monitoring efforts. As already mentioned, the Institute of International Finance was established by private banks as a collective effort to improve monitoring.

learned, or are learning, to differentiate between policies in countries that have already achieved middle-income status. For those countries, it may therefore be that the future role of the Bank should be quite limited while that of the Fund may be crisis management. Indeed, it is the observation that private international capital flows have greatly increased in importance and sophistication for middle-income countries that leads to much of the questioning of the Bank. The same conclusion does not hold for poor countries in SubSaharan Africa and elsewhere: it is this observation which underpins recommendations, discussed in Sect. 5, for the Bank to shift its focus toward the poorer countries and to phase out its work in middle-income countries.

Public Goods and Externalities: Research, Information, and Training⁵⁷

Both the Bank and the Fund have become widely recognized in their role as information providers. There is a strong argument that the information provider role cannot be separated from the lending role, a consideration to which attention returns below. Here, focus is on the role of the institutions in provision of the public goods, information and knowledge. That role extends all the way from gathering and disseminating primary statistics to research and analysis on a variety of issues.

Research. Turning first to research, the Fund has had an

⁵⁷Some have argued that the Bank, in particular, should play a larger role with respect to other -- at least partially -- public goods, in particular the environment. The extent to which the Bank is or should be involved with environmental concerns is debatable, and discussed further below.

active research role and research output at least since the 1950s. The Mundell-Fleming model, referred to above, was an output of the Fund's research department. So, too, was Sydney Alexander's (1952) absorption approach to the balance of payments.

Under the aegis of Jacques Polak,⁵⁸ the monetary approach to the balance of payments, which was later elaborated and extended by Frenkel and Johnson (1976), among others, was developed. There is little question but that the Fund's Research Department has been a leader in raising and analyzing important policy questions. As Polak (1995), who was head of the department from its inception until the 1970s, put it:

"In many places in the world, especially universities and research institutes, the economics of exchange rates are the object of intensive research; and in many other places - governments and central banks, policy councils and newspaper offices - exchange rate policies are matters of active and often heated discussion. But nowhere in the world is the interaction between the scientific and the policy aspects of exchange rates - between 'how do they work?' and 'what should be done about them?' - as close and intense as in the International Monetary Fund...."⁵⁹

The Fund Research Department has remained active over the years, contributing importantly to analyses of the debt crisis in

⁵⁸Polak's 1957 article is usually regarded as the precursor of the Mundell-Fleming, and later work on the monetary approach to the balance of payments.

⁵⁹ Polak (1995), P. 735. For an assessment of the Fund's contribution to research, see Blejer, Khan and Masson (1995).

the 1980s, the properties of alternative exchange rate regimes, the impact of increased capital mobility in the 1990s, and a variety of other topics. In most citation counts, the International Monetary Fund Staff Papers fares very well, comprising a significant proportion of citations (for articles, and not data) of international organizations.⁶⁰

The World Bank was not particularly active in research in the 1950s and 1960s. Its role in research really began with Hollis Chenery, who not only introduced the tradition of seeking empirical norms across countries, but led in analysis of important issues such as the linkages between growth and income distribution (Chenery, Ahluwalia, Bell, Duloy and Jolly, 1974) and other major policy issues of the 1970s. The Bank pioneered in putting out its annual World Development Report, which annually brings together academic and bank researchers to produce a volume synthesizing knowledge on an important development issue.⁶¹

Again to quote Gavin and Rodrik (1995, P. 332),

"...The second distinguishing feature of the World Bank [is] its role as a conveyor belt of ideas about development policy to the developing countries. It is difficult to overemphasize the part played by the Bank in this regard. Thanks to its far-flung lending

⁶⁰See Blejer et al (1995). In Evren Ergin's count undertaken for this article, the Staff Papers did very well, accounting for a significant proportion of citations to articles and books published under IFI auspices.

⁶¹In contrast to the Fund, the Bank did not publish any journals on development economics until the mid-1980s, when the World Bank Research Observer and the World Bank Economic Review appeared.

operations, the Bank is the single most important external source of ideas and advice to developing-country policymakers. World Bank research and publications...are widely distributed around the world..."

Information. In addition to the "pure research" role, however, both the Bank and Fund have contributed to knowledge in important ways. These include the compilation and systematization of basic data, where the Fund's International Financial Statistics and the Bank's World Development Indicators both provide data used frequently in research.⁶² The Bank undertook the Living Standards Measurement Study, which has been a valuable source for research on household-level questions pertaining to demography, education, labor market participation, and income distribution. The Bank is also the agency which collects debt data and publishes them annually in its Debt Tables. Complaints at the outset of the 1982 debt crisis were that the Bank was doing an insufficiently good job of collecting the data, and that more effort was needed. In the aftermath of the Mexican devaluation in December 1994, the calls from private parties and governments were for the Fund to find means to provide reliable statistics on borrower countries in a more timely fashion.

It is difficult to estimate the importance of this work on collection and presentation of cross-country statistics. In an effort to obtain some sort of quantitative indicator, "counts" were

⁶²The Bank was one of the organizations providing funding for the studies leading up to the Summers-Heston data set which has been extensively used in cross-country growth regressions.

taken for selected years as to the number of articles in specified economics journals which used World Bank or IMF data or analyses as an input for research. Tables 1 and 2 provide the counts. Table 1 gives the total number of articles, the number of articles that could be counted as "international", and the number that used Bank, Fund, or GATT sources, in every ten years starting in 1950 through 1990, and for 1995 for "general journals", that is the American Economic Review, the Economic Journal, and the Journal of Political Economy. Table 2 gives the same data for Economic Development and Cultural Change, the Journal of International Economics, and the Journal of Development Economics.

As can be seen, at least up until 1990, the number of international articles, and of those empirically oriented, was growing rapidly in absolute number and as a percentage of all articles. By 1990, international articles constituted 56 out of a total of 194. Of those, 38 were empirical; 14 used a data source from one of the three multilateral institutions, and 26 referenced at least one non-data source published by these institutions.

Whether the greater availability of data permitted more research on international economics, or whether the subject matter was simply becoming more important is an open question. Then, too, it can be argued that if the IMF, World Bank, and GATT/WTO had not provided data, another -- perhaps private -- agency would have done so. While there is no way to refute the counterfactual, there are arguments, to be presented below, that there are not only economies of scope in providing policy advice, collecting data, and lending.

It is at least as likely that, in the absence of the other relationships between the multilateral institutions and individual governments, the data would be forthcoming later, in less reliable form, and be less accessible for researchers and other users.⁶³

Training. There are two aspects of "training" under Bank and Fund auspices, neither of which is well documented nor recognized. First, many people spend several years at one or the other of the two institutions, learning about economic structures, responses, and policies in a comparative context; thereafter, on return to their countries, they are often linchpins of the economic policy teams (and occasionally even top politicians). Second, both the Bank and the Fund provide training, through their Institutes and through programs designed to support civil servants in member countries. Third, the Bank financed thousands of students from developing countries as they pursued their studies abroad.

Harberger (1984, P. 11) has analyzed the "tutelage" function, as he calls it, the best:

"I hold...the profound conviction that the World Bank and...the International Monetary Fund have performed extremely important tutelage functions in ways that many people do not realize. I am ... referring to the upgrading of member country personnel through a) the "apprenticeships: that many of them serve as staff members of the Bank and Fund, b) the direct 'lessons'

⁶³It may be significant that one of the most frequently voiced demands placed to the International Monetary Fund after the Mexican devaluation crisis of December 1994 was that the Fund should see to the collection and dissemination of more timely data from individual members.

learned by government personnel in member countries through dealing with missions from the two sister institutions, and c) the similar but rather more specific lessons that member country cadres have learned by going through the Bank's process of project evaluation at the various stages of a project's development. Each of the above entails a special kind of 'on the job training' that the Bank (and for the first two, the Fund) are in my view uniquely qualified to impart."

There are also more formal training activities. Both the Bank and the Fund have Institutes, which sponsor courses for mid-level officials in project evaluation, monetary economics, maintenance of debt statistics, and a variety of other governmental functions where many developing countries found themselves without qualified personnel. It is difficult to evaluate the contributions of these programs, but that their value is positive cannot be questioned. Harberger⁶⁴, in his evaluation of the Bank, clearly believes that their contribution is very high. He recommended that the Bank "should place first priority on its tutelage role", including both the EDI (Economic Development Institute) programs and the linkages with country lending programs.

What of Multilateral Lending?

It is not difficult to make a case for the value of comparable data across countries, nor for research and analysis in a comparative perspective. And, there are obvious synergies between the collection and analysis of information and the capacity to

⁶⁴ Harberger (1984), P. 14/

provide policy advice. Certainly, the Fund's intellectual leadership and Bank's prominence as a source of development research and analysis have provided credibility to policy advice, and the resources going into analyzing different countries' economic situations have in turn yielded up important grist for research, as noted by Polak in the quote cited earlier.

There is little question but that the direct real return on Bank and Fund lending has been adequate. Indeed, Harberger⁶⁵ has defended World Bank lending on the grounds that real returns have been well above those that might more generally have been expected. Whether the real return on lending is an adequate criterion for evaluation of lending is, however, more debatable. On one hand, it might be that Bank-funded projects attract good people from other, less well funded, projects and that measures of real returns may be overstated.⁶⁶ On the other hand, and especially for the Fund, the fact that loans have been repaid does not provide assurance that they were socially worthwhile. After all, governments can raise resources through tax revenues and do not need to meet a market test to finance loan repayment. Even so, few observers have questioned that the real return on most Bank and Fund activities has been sufficiently high.

It can, nonetheless, be asked whether multilateral lending is

⁶⁵ Harberger (1972).

⁶⁶It could, of course, be argued that higher real returns on Bank-financed projects make it desirable to attract valuable resources away from domestic projects with lower real rates of return.

necessary or desirable in order to carry out the policy advice and knowledge provision functions. Rodrik (1995) has provided the most thoughtful answer.

"...In practice close monitoring of a government's policies is almost always undertaken in the context of a lending program, even when the government has access to private flows and no demonstrable need to borrow from multilateral sources. The World Bank or IMF seal of approval takes the form of a loan, not a pronouncement. There are two possible explanations for this linkage. First, governments may be less willing to open up their books to outsiders if doing so does not lead directly to financial flows. Although this explanation carries weight in some instances, it is not a strong argument for linking monitoring with lending...

The second argument is more credible. In the absence of direct lending by multilateral agencies, there is very little to ensure that these agencies will exercise their informational function as competently as possible. If their own money is not at stake, they may be more easily influenced by political demands...in their certification of creditworthiness...." (Rodrik, 1995, P. 174).⁶⁷

With respect to the second argument, the Bank and the Fund have always insisted on preferred creditor status with regard to their loans. To some degree, at least, that calls into question the extent to which "their own money is at stake".

Dominguez (1993) has modelled the role of the Fund as that of

⁶⁷Rodrik does note that the IFI's refusal to subordinate their claims to those of the private sector to some extent undermines this argument.

providing a commitment mechanism in circumstances in which international cooperation can provide a superior outcome but cannot happen unless countries believe that other countries will abide by their commitments. In a "devaluation game", countries commit to maintain a fixed parity with gold. If either devalues while the other does not, the country gains by achieving a trade surplus but also incurs a cost in changing its exchange rate. Since the costs are incurred by both countries in a prisoner's dilemma situation, a credible commitment mechanism internationally can avoid the costs of exchange rate changes (Dominguez, P. 360). There are three possible ways to achieve the cooperative solution: rules, negotiation, and an international institution. Rules-based systems break down when there is a fundamental change in underlying circumstances, whereas negotiations are ongoing. Organizations can combine some of each of these, providing a rules base, but also permitting negotiations as circumstances change. She shows that under plausible circumstances, a country's incentive to adhere to the IMF exchange rate rules depends on its ability to borrow from the IMF. The lending function is therefore crucial, in her model, to the IMF playing its role as arbiter of the exchange rate system. She finds that ability to borrow from the IMF provides no more incentive to adhere to exchange rate rules than would be there in the absence of the IMF.

Dominguez (1993, P. 389) also considers the IMF's monitoring role, although the model would apply equally well to the World Bank. A monitoring technology that distinguishes between low-risk

and high-risk borrowers can enable private capital markets to function better as banks are able to distinguish between these groups. The results hinge upon there being a relatively high fixed initial cost of monitoring, with a relatively low marginal cost (so that individual banks do not find it profitable to perform the function on their own). Much of the value of an IMF loan may, in her model, result from the very act of an approach to the IMF, which can signal a country's intentions of following policies that make it low risk.

Crisis Management.

There is one last function that may be attributed to the IFIs, although it has not been highlighted in the literature. That is, the IFIs probably constitute a platform that enables coordination in times of crisis more rapidly, and more effectively, than would otherwise be possible. In 1983, after the Reagan administration had spent its first few months in office casting aspersions on the IFIs⁶⁸ and insisting that their funding would be reduced, that same administration found itself fighting for an increase in resources for the International Monetary Fund in response to the debt crisis.

Later, when that same Administration decided that action would be desirable to provide new money for highly indebted countries, the Baker Plan called for a major role for the IFIs.⁶⁹ Early in 1995, the Clinton Administration supported the controversial

⁶⁸Find Treasury document from 1992 on IFIs.

⁶⁹It can be argued, of course, that politicians will always want someone else to pay for the jobs they perceive need doing.

"rescue plan" for Mexico, and supporters of that plan began seeking a facility which would be available in the event other countries in the process of reform encountered difficulties similar to Mexico's⁷⁰ Whether such a facility is warranted is a question beyond the scope of this article: but the proposal demonstrates the potential usefulness of IFIs for crisis management purposes. To state, as was done above, that when it is in everyone's interest to cooperate, they will, may be to ignore the need for mechanisms which enable rapid communication among the potential beneficiaries of the cooperative outcome.

An interesting attribute of the crisis management function is that it could probably not be performed by an agency that had no other function: to perform the crisis management function, credibility, presumably derived from ongoing activities would be necessary; and part of credibility would be derived from the agency's demonstrated competence and closeness to the key issues.

3. Criticisms of Performance of the Fund and the Bank

Clive Crook (1991, p. 6), in surveying the IFIs in 1991, provided a succinct account of the various criticisms levelled against the institutions:

"...Critics say that the Bank and the Fund:

- apply identical remedies, irrespective of a country's circumstances;
- support programmes that do not work;

⁷⁰ See, for example, the editorial in the Financial Times, May 1, 1995, P. 15.

- are anti-growth;
- harm the poor;
- impose austerity on member countries;
- bail out the commercial banks
- have a market-oriented, free-enterprise philosophy which they apply in a doctrinaire way;
- ignore the views of governments of developing countries;
- have no influence over the governments of rich countries;
- collude in dealing with developing countries.

This list, though long, is incomplete. Both institutions have also been accused, from the left, of keeping wicked right-wing regimes in power. Many more complaints, from both left and right, are aimed specifically at the Bank. Conservationists say its investment programmes have damaged the environment. American conservatives bemoan its policy of lending mainly to governments (either directly, or by insisting on a government guarantee)."

For many of the complaints listed by Crook, there is a complaint from the opposite viewpoint. For example, while some may say that the IFIs ignore the views of governments of developing countries, others criticize the Fund and the Bank on the grounds that they are too "soft" in their dealings with some developing countries. And, while some complain about "collusion" in dealing with developing countries, others have complained that the Fund and the Bank do not coordinate closely enough in their dealings with individual developing countries.

Moreover, some "complaints" are difficult to interpret.

Consider the criticism that country programs are "identical". If the Fund and Bank had entirely different programs for each country in which they are active, that surely would be grounds for criticism. And it is obvious that the programs are not literally identical. Key policy variables (e.g., exchange rate, nominal interest rate, fiscal deficit, etc. in Fund programs) are touched in most (but certainly not according to a formula that anyone can readily replicate) programs, but that is not surprising given that the foreign exchange difficulties that normally prod a government into approaching the Fund are interrelated with key macroeconomic variables.

Scrutiny of the list suggests, however, that critics can be divided into several groups. The first group claims that the total product of the Bank or the Fund is zero or negative; the case is based on either the failure of the developing countries to have achieved better economic performance than they did or on criticism of lending patterns.

Another group are those who implicitly or explicitly believe that the total products of the institutions are positive, but that particular practices have been deleterious. There are those who criticize one or both institutions as being too "soft" in their practices, believe the institutions have been flawed in their approach to crisis management, or believe that lending practices have led to lower real returns than were attainable. There are others who criticize IFIs practices in more fundamental ways, such as complaining that their practices have not done enough for the

poor or have failed to focus adequately on environmental issues. In some instances, especially with regard to the Fund, there are also questions as to policies regarding alternative exchange rate regimes.

Yet another set of criticisms has focussed on the bureaucracy of the Fund, and especially the Bank. Here, the arguments normally focus on the size of the staffs (again, especially of the Bank), delays in decision-making, and lack of flexibility in processes.

Negative Total Product?

Turning first to the total negative product argument⁷¹, Bandow and Vasquez (1994) have put it in a fairly typical fashion: "Multilateral lending institutions - the International Monetary Fund, World Bank, and regional development banks - have flooded the Third World with hundreds of billions of dollars in aid. Since the early 1950s, the World Bank alone has lent developing countries nearly \$300 billion....Yet after providing advice, loans, and grants to the governments of the world's poorest countries for four decades, the multilaterals can point to few, if any, cases in which their efforts have led to improved living standards and sustained

⁷¹Focus here is on the argument as concerns IBRD and IMF activities. The allegations regarding IDA are normally that they do the same "wrong" things as the IBRD. Critics of lending under IDA normally consider it self-evident that structural adjustment lending and infrastructure support "do not help the poor". Since it requires very little economic theory to understand that the general equilibrium effects of infrastructure and other investments, as well as more rapid economic growth in general, may help the poor more than "direct" assistance (whatever that is defined to be), I do not consider the argument here. For a representative sample of the critique of IDA, see Udall(1994).

economic prosperity..."⁷²

The argument that living standards have not risen is patently false for most developing countries.⁷³ And, to make the argument that the IFIs have had a negative total product, one would have to provide a reasonable estimate of what would have happened in their absence. While provision of a counterfactual is impossible, there are several considerations that limit the range, and most of them suggest that the Bandow-Vasquez type argument is simply wrong. First, one can contrast the growth rates of developing countries (total or per capita) in the post-war period with that of earlier

⁷²The authors cite the World Bank's 1992 Annual Report as the source of their \$300 billion estimate. I am unable to verify that number. It is hard to think of a test to determine whether there has been "sustained economic prosperity". But certainly, life expectancies have increased dramatically in most developing countries, as have standards of nutrition and literacy. And, in almost all developing countries (the exceptions being heavily concentrated in Subsaharan Africa), living standards are arguably well above the level of the 1940s and 1950s. One wonders how Bandow and Vasquez would classify the East Asian and Southeast Asian economic performances, where living standards have risen rapidly and where the IFIs were a source of finance.

⁷³Even for Subsaharan Africa, which has had the greatest economic difficulties, there is considerable evidence of improvements in life expectancies and access to education and health care. The World Bank estimates that per capita income in constant prices for all low-income countries rose at an average annual rate of 2.7 per cent per annum from 1965-83, and fell at an average annual rate of .7 percent from the early 1980s to 1995. (World Bank, 1985, p. 174 and 1996). Subsaharan Africa is estimated to have experienced declining per capita income at an average annual rate of less than one percent, with population growth in excess of 3 percent in many countries. Even if the figures are a reliable indication of per capita consumption, one would have to analyze the welfare implications of larger family size (resulting from reduced infant mortality) before concluding that there had been no benefits. That economic growth would have delivered more rapid increases in living standards under altered economic policies is, however, undeniable.

times. On that criterion, growth has clearly accelerated.⁷⁴ Second, one can contrast growth rates (or other indicators of success) of developing countries with postwar forecasts; again, one finds that growth exceeded the forecast rate.⁷⁵ To make a case that the IFIs had a negative product would, therefore, require an argument that developing countries would have performed even better in their absence, and there is certainly little or no basis for that.

A sophisticated argument that the IFIs had had a negative total product would probably focus on their role in strengthening governments (since their lending is to governments) and argue that the availability of IMF and/or World Bank support permitted governments to pursue inappropriate policies longer (or in more extreme fashion) than they otherwise would have.

As with all counterfactual arguments, the issue can never be decided, but a reasonable reading of postwar thinking on development (and the role of the state in economic activity more generally) would suggest that extremely interventionist and counterproductive government policies were widely believed to be

⁷⁴For example, India is regarded as one of the laggards in raising per capita income in the period prior to 1990. Yet estimates are that real per capita income grew at about 1.8 percent annually starting in the 1950s, contrasted with a rate of about 0.5 percent a year in the preceeding half century (or longer). To be sure, more rapid growth of developing countries might be attributable to other changes. For example, the entire international economy grew more rapidly in the postwar years, and the more rapid growth of developing countries might well be the result of that.

⁷⁵See Morawetz (1977) for an evaluation during the World Bank's first quarter century.

the appropriate instruments for development.⁷⁶ The learning that took place, it can be persuasively argued, was more rapid because the IFIs provided a comparative perspective, data, and insights that arose from the common features of experience across countries.

Moreover, as already mentioned, many of the project loans and credits extended by the World Bank contained a considerable element of technical assistance and institution-building which enabled countries to develop their own capacities more rapidly than would otherwise have been the case. There is evidence that experience in the 1950s under IFI and bilateral aid programs provided a learning-by-doing environment for many later entrepreneurs and managers in developing countries.⁷⁷

One can then turn the question around, and ask how much difference the IFIs might reasonably have been expected to make. A plausible upper bound on that difference can be estimated by noting that there is no country outside Sub-Saharan Africa where the total capital inflow has amounted to more than 2 percent of GDP annually, and in most it has been significantly smaller. If one estimates that the net real rate of return (i.e., net of whatever loan repayments or dividend repatriation occurred) to that capital

⁷⁶See Krueger (1997a) for the evolution of thought with respect to trade policy and development, one area in which early thinking was simply wrong.

⁷⁷See Krueger, Ruttan and Michalopoulos (1989), especially Ch. 8, for an elaboration of this argument.

inflow was 10 percent -- surely a high number --⁷⁸ then the total capital inflow could have resulted in a higher rate of economic growth (both total and per capita) of no more than 0.2 percent per annum.

While two-tenths of a percent per year is significant in the context of poverty, it is hardly sufficient to believe that those flows, by themselves, should have led to "sustained economic prosperity". Indeed, given those orders of magnitude and the imprecision with which weights can be assigned to factors contributing to growth, it is difficult to understand how the IFIs, or capital inflows in general, might have been expected to result in a quantum leap in economic performance. To the extent that their contribution was any greater than this estimate, it surely resulted from the fruits of policy advice, technical assistance, training and the more rapid spread of knowledge, and other informational services provided by the IFIs. Expecting more of the IFIs would therefore imply a very high product of the research-information-policy-advice functions.

At least for this author, it is an easy conclusion that the IFIs both played invaluable roles with respect to the developing countries' improving economic policies in their early years. Even by the mid-1970s, it could be shown that the extreme excesses of earlier trade and exchange rate policies had been moderated, and

⁷⁸But see Harberger (1972) P. 355. Harberger used 10 percent as the return in his classic paper, and was the first to point out that capital flows from official lending and aid could not have been expected to have had a large macroeconomic impact on growth rates.

that the Fund and Bank had clearly played a role.⁷⁹ While policy reform requires the "ownership" of the program by nationals, the availability of financial (and perhaps even moral) support, and possibly support in the process of designing reforms from the IFIs often played a significant and positive role in strengthening the hands of the reformers.

Criticisms of Lending Programs

If one rejects the negative total product argument, one is nonetheless left with the claim that much lending was misdirected. If it was, and such misdirection is inherent in the nature of the institutions, that critique is highly relevant to proposals for reform.

The argument that lending had a lower real rate of return than it might have has two parts. First is the claim that conditionality was "too soft", in the sense that domestic economic policies were not conducive to growth. The second is the proposition that the IFIs supported or perpetuated governmental intervention in the economy.⁸⁰ It is easier for critics to support

⁷⁹See Krueger (1978), Pp.37ff.

⁸⁰In cases of countries such as Ghana in the late 1970s, economic policy was so chaotic that real per capita incomes were falling sharply. Export earnings declined even more rapidly, as incentives for exporting were few, while demand for imports increased sharply. In the absence of an appropriate exchange rate policy or other adjustment mechanism, the government of Ghana resorted to rationing to allocate scarce foreign exchange. Since many goods were not produced domestically, it can be argued that political protests against the government would have been considerably stronger had not the availability of IFI finance permitted a larger volume of imports than export earnings would have enabled. It can also be argued that the pressures on the government to change policies are weakened by the availability of

these claims and to be concrete, than it is to show total negative product. Since there were ill-advised loans (at least ex post), it is easy to point to individual cases: surely lending to Ghana (where economic policy was inconsistent with good economic performance) during the period from 1970 to 1984 was not productive, and there are many similar cases in other countries where the domestic economic policy framework was so poor that lending could not hope to have a high rate of return.

There is little doubt that the IFIs have undertaken programs in countries where, with hindsight, it is evident that it was probably unwarranted. To some degree, this was because of political constraints imposed by the large countries. To some extent, however, there has been learning about the development process. Earlier thought regarding development, both in the IFIs and in academic institutions, did not focus on the importance of appropriate economic policies to the same extent as does current development thinking.⁸¹ Indeed, what John Williamson (1994, Pp. 26-8) termed the "Washington consensus" on appropriate economic policies for development only emerged in the 1980s.⁸²

The same can be said for types of lending within countries. In earlier years, the World Bank lent for steel mills, pulp and paper factories, fertilizer projects, and chemicals, among others, in the

foreign finance, as the consequences of poor economic policy are less evident.

⁸¹See Krueger (1995) for an analysis of the change in thought.

⁸² Crook noted that the "consensus looks a lot like 'Bank/Fund orthodoxy'. P. 6.

public sector (Mason and Asher, P. 375). But much of that lending took place at a time when many economists believed that there was no reason why the public sector should not engage in these activities.⁸³ Developing countries were themselves investing in these activities. The comparative perspective of the staffs of the IFIs may have been one important factor in bringing about recognition of the need for altering investment programs in developing countries and with them, Bank lending program.

To say that the IFIs (as well as bilateral aid agencies and policy makers in individual developing countries) made mistakes is clearly correct.⁸⁴ When, however, the IFIs were among those in the lead in recognizing those mistakes, it is difficult to allege negative productivity of those institutions.

On the other hand, if means could be found to strengthen the review process in ways which reinforced appropriate lending criteria, that would certainly increase the value added of the international institutions. Such means, if they exist, would provide further protection for the IFIs from the political wishes of member governments, as well as strengthening internal processes within the institutions. The former change must come about, if at all, as policy makers in the United States, Japan, Germany and other countries recognize and appreciate the value of an apolitical

⁸³See Tinbergen (1984) P. 326 for a statement defending public ownership as recently as the early 1980s.

⁸⁴It should not be forgotten that industrialized countries also increased the role of state owned enterprises in the economy and made some of the same mistakes as did the developing countries.

lending process to them. The latter can come about through internal change in the institutions (including further research and dissemination of results), and would not require "reform" of the sort discussed below.

Strengthening Government?

Perhaps the most frequently-cited charge against Bank, and to a lesser extent Fund, lending (both IDA and IBRD) is that, since it cannot be made without a guarantee from the government in the recipient country, and is normally to government, it must be strengthening government and the role of government vis-a-vis the private sector.⁸⁵

With respect to the Fund, the essential argument is that its function with respect to industrialized countries' exchange rates has been lost, and that it has provided repeated support for developing countries whose underlying economic policies and prospects have not been greatly improved thereby.⁸⁶ Vaubel argues

⁸⁵This is an argument that is often used to advocate more lending by the IFC and less by the IBRD. A legitimate case can be made for some of this shift (see Ryrie 1995), although there are two major qualifications. A first is that the IFC is directed to lend only when the private sector in the country will not finance the venture, which surely limits the validity of the argument. The second is that private sectors can perform only when government is also assuring that infrastructure is in place. This latter is usually a role assumed by governments; efforts of the IBRD to improve roads, ports, agricultural research and extension, and other activities of that nature are clearly complementary to private development.

⁸⁶Bandow (1994, P. 35) provides an appendix in which he lists countries by the length of time they used Fund credit, arguing that repeated use is per se evidence of failure. In his list of countries using Fund credit for 30 years or more are Chile, Egypt, India, Sudan, Turkey, and Yugoslavia. Of those countries, all but Sudan and Yugoslavia have significant improvements in living

that the Fund (and Bank) engage in bureaucratic maximization, and that much of its lending is to further bureaucrats' objectives, rather than because of difficulties within developing countries.⁸⁷

For the World Bank, the allegations are even worse. According to Bovard (1994, P. 59),

"The World Bank is helping Third World governments cripple their economies, maul their environments, and oppress their people. Although the bank was started with the highest ideals almost 50 years ago, the bank now consistently does more harm than good for the world's poor." Bovard provides a listing of actions he believes support this contention, including Bank support for Ujamaa in Tanzania in the early 1970s and for transmigration in Indonesia, a Bank evaluation of its lending program in 1987, the Subsaharan African Report⁸⁸, lending to Chile and Korea (when the author believes they should have accessed private capital markets), and support of agricultural marketing boards (again, criticized by the Bank itself).

Except for lending to Chile and Korea (which might or might not have been handled by the private sector, but which certainly did not make the poor worse off even by the critic's allegation), most observers would be sympathetic with Bovard's view that the projects listed were at best of doubtful value. Bovard, however, like most

standards, if less than might have been attainable under other policies. Most observers would classify Chile as a success story.

⁸⁷Vaubel (1994) and (1996).

⁸⁸World Bank (1981).

extreme critics, does not provide what most economists would accept as a reasoned argument in support of his case. It does not require a belief that the Bank and Fund are perfect to assert that the benefits of those institutions exceed their marginal, if not their average, costs.

Loans such as those for steel mills, the establishment of chemicals factories (and even tourist facilities in the 1950s and 1960s) are clearly subject to the critique that they support increasing the role of the government precisely where it has a comparative disadvantage; moreover, experience in almost all developing countries is that the public sector has shown great ineptness in its ability to operate these types of activities.

A small fraction of Bank lending was of that type, however. Moreover, it is not necessarily true that all lending to governments necessarily increases undesirable controls over the private sector or usurps private sector activity. There are loans that may reduce the degree of governmental control of the economy: loans in support of trade liberalization are an obvious example. But many other types of loans can also reduce government controls: financial sector liberalization can remove credit rationing and thus prevent government direction of credit; and support for policies freeing agricultural prices or removing state marketing board monopolies over inputs or outputs can greatly reduce government controls in agriculture, to mention just a few examples of lending to governments in support of activities that reduce the control of the public sector.

In the case of trade liberalization, the reasons why support can reduce governmental powers are fairly straightforward. When countries have had inadequate incentives for exports because of unrealistic exchange rate policies and have simultaneously provided heavy protection for import-competing industries, bureaucratic control of economic activity (through the power to grant import licenses) has been enormous. When policy reform is undertaken, the domestic authorities are not in a position to undertake trade liberalization without foreign exchange to finance imports during the transition period: lending to government in support of trade liberalization can evidently reduce or even eliminate the value of import licenses, and thus the control of the private sector by government.

Consideration of the evidence would suggest that there have been significant mistakes by both the Bank and the Fund in providing support for governments whose policies were not adequate to bring about sufficient changes in economic policies.⁸⁹ But there has also been considerable learning, by the academic community, the development policy community, and the IFIs. As that has taken place, the extent to which the Bank and the Fund are vulnerable to the charge of supporting governments has been

⁸⁹Especially in the case of some Fund support, ill-advised lending has sometimes been the result of pressure from a large shareholder. In Argentina in the mid- to late 1980s, for example, before serious reforms had begun, the U.S. strongly pressured both the Bank and the Fund to continue lending, despite the inappropriate economic policies at the time. On occasion, even smaller shareholders have urged support of inappropriate policies - as happened with Swedish support for Tanzanian policies in the 1970s and later.

considerably reduced.

4. Proposals for Reform

As already mentioned, the 50th anniversary of Bretton Woods was the occasion for innumerable conferences and papers on the "twins" in retrospect and in prospect.⁹⁰ Proposals for reform of the IFIs abound. They include abolition of one or both (Bandow and Vasquez 1994), merger (Crook, 1991), reassignment of functions, as well as proposals for far reaching changes in the international economic system. In many of these proposals, there are implicit or explicit assumptions about the optimality of the current system of exchange rates, about the political feasibility of alternative changes, and about the relationships with other international economic institutions.

Some proposals are single issue and/or not operationally meaningful, such as that the Bank "should pay more attention" to the environment or that a Tobin tax should be placed on international capital flows and the proceeds turned over to the IFIs or the UN. Others call for marginal improvements in policies within one or both institutions, under their existing structure and organization. Others are implicit in the criticisms mentioned above, such as that the IMF lending hurts the poor or does not

⁹⁰The following is only a partial listing of volumes emanating out of conferences or other activities associated with 50th anniversary events: Anglieta (1995), Bandow and Vasquez (1994), Bordo and Eichengreen (1993), Boughton and Lateef (1995), Bretton Woods Commission (1994), Cavanagh, Wysham and Arruda (1994), Holland (1994), International Monetary Fund (1995), James (1996), Kenen (1994), Kirshner (1996), Szabo-Pelsoczi (1996), Uzan (1996), World Economy (1996).

help.⁹¹

To make matters tractable, focus here is on proposals that have a more general view of the international economic system. To anticipate the major theme, it is significant that there is a huge literature on what exchange arrangements should be, how the Fund should behave within them, and what the Fund's future role should be. In most instances, however, a starting point is acceptance of the essential outlines of the international monetary system and the Fund's role in it.

By contrast, analyses of the Bank are relatively short on proposals for altered roles, and center primarily on the organizational competence of the Bank to carry out its functions, or on whether there is any need for the Bank in the world of the 1990s. Yet, in many ways, the changed international economy (with vastly increased private capital flows) and the organizational criticisms of the Bank make the challenge of defining a politically acceptable role for the Bank a significantly more urgent task than

⁹¹A major difficulty with critics who assert that IMF (or Bank) programs "do not help" is that a test of the hypothesis would require careful specification of the counterfactual, which is almost never attempted. The program in support of Ghana is a useful example. Recently, critics have pointed out that Ghana is not growing very rapidly, and that real per capita income is rising less than 1 percent annually. And it is certainly true that changes could be made in Ghanaian policies that would be conducive to more rapid growth. However, prior to 1984 when Structural Adjustment Lending to Ghana began, Ghana's real per capita income was declining at a rapid rate and there was every indication that things would continue to deteriorate without major policy shifts. While it can be argued that the lending programs of the IFIs might have been used to bring about even more policy reform, that raises the question as to what the limits of political feasibility were in Ghana.

is reform of the Fund.

In this section, therefore, I start with a review of the proposals for reform of the exchange rate and international monetary system that are linked to the Fund's role. Although there are many visions, perhaps the focal point on which political debate will dwell over the next several years (leaving aside the questions that arise from the planned EMU which has naturally drawn attention away from the IMF) is the role of the Fund in crisis management.

Thereafter, attention turns to the World Bank. There, proposals for reform are reviewed. In a final section, I sketch out my own "recipe" for a future for the Bank.

Proposals for Reform of the Exchange Rate and International Monetary System.

Because the Fund lost its initial role in determining whether countries' were in "fundamental disequilibrium", one would anticipate that proposals for reform of the Fund were even more pressing than those for the Bank. In fact, that is not the case. Many analysts seek relatively small changes, accepting the Fund's role in monitoring individual country performance and supporting macroeconomic reforms.⁹² The Fund fills a needed role with regard to individual countries' exchange rate and balance of payments difficulties, and the significant question -- arising out of the Mexican difficulties at the end of 1994 and early 1995 -- seems to be whether and how this role might be strengthened.

⁹²For a representative range of views, see the panel discussion among Eichengreen et al (1993).

Since the Fund's initial role dealt with exchange rates, it is natural that analysts turn their attention largely to issues associated with exchange rates and how to handle individual countries' inability to meet their foreign exchange obligations. But the lack of intellectual accord on the appropriate exchange rate system, combined with the reality of large countries being free to pursue the current flexible exchange rate system, has led to fewer specific proposals with regard to exchange rates than might have been anticipated. Since the exchange rate regime is clearly the crucial issue for the Fund, that question is taken up first here. Thereafter, consideration is given to proposals for crisis management. Issues relating to conditions of specific programs in developing countries are deferred until discussion of proposals of Bank-Fund mergers.

Exchange Rate System⁹³. While there are several proposals, mentioned briefly below, that suggest changes in underlying exchange rate systems, the fact is that there are two prior issues which would have to be agreed upon, and they are not. Morris Goldstein (1995, P. 2) put it well:

"All appraisals conclude that the performance of the world economy could be improved if policy discipline were strengthened

⁹³Research on exchange rate regimes continues, led by the Fund's research department. Two issues have received great attention in recent years: the role of private capital flows, and especially the pressures those flows can place on individual currencies to appreciate and the appropriate exchange rate policy to accompany efforts to reduce inflation rates. Use of the exchange rate as a "nominal anchor" has been frequent, and analysis of the effects of this policy is ongoing. See Calvo, Reinhart and Vegh (1995) for a discussion.

and if the frequency and size of exchange rate misalignments could be reduced. But there is little consensus on how to bring that about. Those most convinced of the need for fundamental reform of the system - in the sense of a move to explicit, binding exchange rate targets by the three key-currency countries - are not in a position to do much about it. Those who are in such a position are not convinced of the need for such fundamental reform. Much the same could be said for proposals to give the IMF greater responsibilities in overseeing exchange rate policies and in organizing international economic policy coordination..."

Goldstein's own proposals are for the Fund to focus more on avoidance of large exchange rate misalignments, and development of an early warning system to identify them between major currencies. They could be implemented largely by action of the U.S., Japan, and the European Union without any structural reforms of existing international institutions.

As was discussed above, analysis of exchange rate regimes without reference to underlying monetary and fiscal policies is intellectually unsatisfactory. Yet the split between the Fund's acknowledged role with respect to exchange rates and its lack of role regarding monetary-fiscal coordination is stark. As long as the largest countries continue to follow flexible exchange rate systems and to discuss whatever macroeconomic coordination there is in fora away from the IMF, the IMF will be dealing with issues of macro and exchange rate policy in the smaller trading nations. To be sure, the Fund can, in its publications and through the speeches

of its top officials, bring pressure to bear on large countries to alter their policies, but that pressure will be only one factor influencing policy makers in the country concerned.⁹⁴

Eichengreen has persuasively argued that large countries are unwilling to "give up" their monetary independence and that, with increasingly mobile capital, this leaves the world little choice but to have floating exchange rates, at least among all but the smallest countries.⁹⁵ Recognizing the reality of large-country flexible exchange rates, most analysts have eschewed concrete suggestions for change, but there are exceptions. Aside from those who advocate the return to a fixed exchange rate regime⁹⁶, the most visible proposal has been that for a "target zone", and international cooperation in setting the zones. Williamson has been the most visible proponent of the target-zone proposal. In setting target zones, nations would permit some exchange rate flexibility, but nonetheless define limits at which they would defend the currency. The target zones, put forward by Williamson and Henning (1994), would be determined by estimating each (major) country's natural rate of unemployment and then having "each country...commit itself to a macroeconomic strategy designed to lead, in the medium term, to simultaneous internal balance, defined as unemployment at

⁹⁴See Mussa, Goldstein, Clark, Mathieson and Bayoumi (1994) for an analysis reaching this conclusion.

⁹⁵Eichengreen (1994).

⁹⁶It was seen earlier that most discussions of fixed exchange rate systems center around the problems of the single European currency, although it is well understood that the issues apply to the world exchange-rate system as well.

the natural rate and minimal inflation, and external balance, defined as achieving the target current account balance...The exchange rate should be kept within a target zone around its 'fundamental equilibrium exchange rate'.."(P. 91).⁹⁷ The fundamental equilibrium exchange rate (FEER) would be agreed upon with other large nations. Countries would then intervene in the foreign exchange market to maintain exchange rates within the target zones; monetary policy would then be geared to the agreed-upon growth of nominal domestic demand; and fiscal policy would reconcile the employment target with internal balance. (Williamson-Henning, 1994, Pp. 92-93). Williamson and Henning would have the IMF staff prepare discussion papers for meetings of the G-7 at which targets would be decided upon. They believe, however, that the responsibilities of the Executive Directors of the Fund should be upgraded and that G-7 decisions on targets should be reported to the Board before being implemented (P. 104).

The proposal for target zones is intended to achieve a balance between the flaws of a fixed exchange rate system (which can be attacked by speculators) and the flaws of a floating rate system (too much exchange rate movement). It can be criticized on four grounds. A first is the technical difficulty, if not impossibility, of estimating the appropriate orders of magnitude for exchange rates, nominal domestic demand, and required fiscal policy. From this first difficulty, the second follows. That is, the course of

⁹⁷The Williamson-Henning proposal would also have countries agreeing on their target growth rates of nominal domestic demand.

action to be taken when speculative pressures against a particular currency, already at the border of its zone, becomes very large: it is not evident that negotiations for FEERs could avoid this outcome, as was evident in the currency difficulties encountered by the EMS. The third pertains to the difficulties inherent in attaining cross-border agreement on appropriate current account levels, etc.⁹⁸ Aside from these objections, if any system resembling a target zone system is to have any chance of happening, it will come about through evolution rather than through a sudden change; it is not clear how the U.S., the EU, and Japan could negotiate to commit their respective governments to such intensely political variables as is called for in the target zone proposal.

Crisis Management. Other proposals center on increasing the Fund's capacity for crisis management. Two related issues have been raised. A first concerns the absence of any international equivalent of domestic bankruptcy. Sachs and others have shown that, absent such a mechanism, debtors may undertake less servicing on their debt, and be less well off, than if mechanisms for partial or total bankruptcy-equivalents are available.⁹⁹ Sachs has argued that coordination problems among individual lenders can prevent the achievement of the better outcome without an international

⁹⁸See Cooper (1994) for an elaboration of this argument.

⁹⁹This can happen because profitable new investments may not be undertaken if the net return (after meeting debt servicing obligations, which should really be regarded as fixed costs) is less than the financing costs. In that circumstance, reduced debt servicing obligations can induce new investments with a greater payback for the creditor and higher real income for the debtor nation. See Sachs (1995).

institution to orchestrate it, and has proposed that the IMF be empowered to begin serving the lender of last resort function.

Such a proposal encounters the immediate criticism that national politicians who are aware that they will be "bailed out" will be even less reluctant to incur fiscal imbalances than under existing conditions. In an important sense, the question boils down to whether procedures and mechanisms could be devised that permitted debt write-down or restructuring and even new money under sufficiently well-defined conditions that incentives for larger fiscal imbalances were not created. Martin Wolf put it well: "Sovereign insolvency is - and always has been - a fact of life. Yet such insolvency now turns too often from a critical illness into a chronic condition. What is needed, instead, is a cure." (Wolf, 1995).

No proposal has yet been formulated in a manner to satisfy both the objectives of financing when the situation is critical in Sachs' sense and when adequate fiscal and other reforms are undertaken, while simultaneously avoiding increased incentives or reduced penalties for fiscal imbalances.¹⁰⁰ As capital mobility has increased, the magnitudes involved have increased greatly. The

¹⁰⁰The IMF has such a mandate, of course, on an ad hoc basis. When the Clinton Administration wanted to put together a \$50 billion package for Mexico, it sought and received the support of the IMF, although the Administration pressed for such rapid action that the usual minimal notice to Executive Directors (so that they may consult with their governments before voting) was not given and some European Executive Directors abstained in protest.

At the time of completing this manuscript (summer 1997), the Government of Thailand was reported to be approaching the IMF seeking \$20 billion to support its efforts to stabilize the economy.

fundamental question is the extent to which private capital markets can be "trusted" relative to the extent to which the IMF can devise means to support those with appropriate "cures" for underlying economic difficulties and to eschew support for those attempting palliatives.

Proposals regarding the Bank's Future Role

As private international capital markets have increased their role, that of the Bank is necessarily diminished. In 1996, it is estimated that private capital flows to developing countries were \$231.5 billion while flows from the IFIs were \$6.8 billion. No conceivable additional financing could provide the World Bank anything like the importance it had in capital flows in earlier years.

There are, however, a number of poor countries, where private capital flows are still small, and where Bank lending for projects (in infrastructure, education and health) is still badly needed. The question, therefore, is whether means can be found to focus the Bank on the challenges of the coming decades. Much of the allegation of organizational difficulties must surely originate in the Bank's efforts to extend into all directions at once and to remain in all countries. A strong case can be made that, while some of the Bank's involvement in environmental matters, cooperation with NGOs, efforts to combat corruption, and other "new issues" may improve the Bank's effectiveness in supporting development, the Bank has moved far beyond its essential competence in addressing many of these issues.

There are four interrelated issues: 1) the domain of countries within which Bank lending is still desirable; 2) the type of lending and extension of credit that is desirable; 3) whether the Bank and the Fund overlap "too much"; and 4) whether the Bank as an organization is capable of adapting to a role that would make sense over the next several decades.

Each is discussed in turn. As to the domain in which the Bank operates, it is evident to most observers that most Latin American and Southeast and East Asian countries now have an adequate corps of experienced personnel and sufficient access to private capital markets that it makes little sense for the Bank to be undertaking ordinary project lending in these countries. Indeed, as private entrepreneurs are increasingly willing to finance infrastructure projects, the scope for Bank project financing will necessarily diminish. However, over the intermediate term, newly independent countries of Central Asia as well as most African countries can benefit considerably from the Bank's continued role as a project lender. The same is probably true of other very poor countries, such as Haiti, Nepal, and perhaps some other South Asian countries. Even if policies were conducive to economic efficiency and growth, the absence of basic infrastructure (and often the absence of experienced people in the relevant parts of government) can serve as a major obstacle to rapid growth. At least for the foreseeable future, there is probably a valuable role that the Bank can play in project lending to very poor countries similar to the role it played in Latin American and Southeast and East Asian countries in

earlier years.

But there are questions as to the types of lending that should be undertaken. Many of the very poor countries, plus some middle income countries, are greatly in need of major overhauls in their economic policies. Until such an overhaul is underway, evidence strongly suggests that Bank lending could have sufficiently high rates of return if confined to basic infrastructure (including education, health, development of agricultural research and extension capabilities, and so on) which can simultaneously improve peoples' earnings streams even under poor policy and provide an improved resource base available when policy reforms do come.

However, there are instances when governments attempt serious policy reform. Many of those in need of policy reform are the poor countries that would in any event be eligible for projects of the type described, but some are middle income countries that would not be eligible for Bank projects as discussed above. In support of serious policy reform efforts, a strong case for Structural Adjustment Lending can be made. A key question would be whether the Bank can adequately differentiate between countries where reforms are serious and stand a reasonable prospect of success and those in which window dressing is used as a means of seeking additional funding.

In low income countries where policies were appropriate, the range of Bank support could be larger. Infrastructure projects outside the circumscribed domain described above could be

supported. Perhaps more significantly, the activities of the IFC would have much higher rates of return in low income countries once policies were deemed appropriate.¹⁰¹ The International Finance Corporation, for so long a small sidekick of the rest of the World Bank Group, has already been assuming a larger role in developing private sector activities, and would continue to devise ways for strengthening the development of the private sector.

The Bank's project and policy role in the poor countries (financed in part by further IDA replenishments) would entail a continuation of its comparative perspective and research functions (including especially its World Development Report), which have been highly useful in bringing current insights in development to policy makers in countries who would otherwise find it difficult to stay abreast of developments and comparative experience.

Thus, the Bank would, for middle income countries such as Chile, phase out its lending activities in the future; when the Bank has been a significant source of net capital inflows, the phaseout should be gradual so as to enable countries to reduce their net indebtedness to the Bank gradually. Target dates for zero net indebtedness would presumably range from 15 to 30 years, depending on the individual countries. At the same time, The Bank's role in poor countries would be considerably more oriented toward those where appropriate policies were in place, and those where Bank support could induce significantly more rapid policy reform.

¹⁰¹Mechanisms and criteria for determining eligibility for the enlarged support facilities would in practice be difficult to develop, but certainly could be devised.

Such a role would be considerably reduced from that the Bank currently plays. It would become more of a "niche" player, supplementing private markets. An interesting, and seldom discussed, issue is how the regional development banks, and particularly the Interamerican Development Bank would function were the World Bank to focus its activities along the above-lines. The IDB could, as well, focus its efforts on the poorer countries in the region, although the rationale for regional development banks might diminish as the World Bank grew more focussed.¹⁰² Little has been written on this topic, largely because there has been so little consensus on what the Bank should become, except for the consensus that it should change.

The third question -- do the Bank and Fund overlap too much -- is of course related to both the first and the second. Should the Bank focus on fewer countries with both project lending and support of policy reform, it would overlap much less than it has in the past two decades with the IMF. The IMF would continue its role in support of moving toward open trade regimes and maintenance of sustainable balance of payments positions; in addition, it would continue in its crisis management function, perhaps enlarged as described above.

As the IMF has, at least in large measure, lost its role with respect to developed countries, a natural suggestion is that the

¹⁰²The Asian Development Bank would, under this proposal, phase out many of its activities in East and Southeast Asia; but it has a significant number of new "clients" in Central Asia so the question of the institution's rationale would be less troubling than in the case of the IDB.

two institutions should merge. The Bretton Woods Commission, led by Paul Volcker (Bretton Woods Commission (1994) considered this proposal seriously. Recognizing the effectiveness of the IMF as an organization, the Bretton Woods Commission considered a merger of the two institutions because it might provide stronger policy support for those countries where it is needed, and simultaneously resolve some of the organizational problems of the Bank. The Commission rejected the recommendation, however, but did recommend a number of changes (discussed below) that would result in a much clearer demarkation of the roles of the two institutions.

The proposal that the Bank focus on low income countries, confining its role to project lending except during periods of intense policy reform, would achieve the same objectives.

There is another consideration that suggests the desirability of the continued independence of the IFIs. It can be argued that one reason the Bretton Woods "twins" have been effective is that there has been competition between them. Historically, at times when the Fund has appeared weak or ineffective, the Bank has been strong, and vice versa. It may be that competition between the institutions keeps both healthier than they would otherwise be.

Yet a third important argument is that, whatever mechanism was chosen to rewrite the Articles of the two institutions to achieve merger would have to be insulated from pressures to politicize the Bank and Fund along the lines of other United Nations agencies. Quite clearly, politicization of staff along nationality lines, moves to one-country one-vote, or a number of other possible

changes that could render the organizations much less effective.

The third question relates to the Bank's organizational effectiveness. There is little doubt that the Bank has taken on too many functions in response to its critics and the result has been very slow processes and a failure of the organization to focus. Part of that incapacity is clearly derived from the political confusion and multiplicity of purposes wished on it by member governments. But whatever its source, there is an evident political rejection of the Bank as it is currently organized. Whether and how that political dissatisfaction can be overcome is a paramount question for the future of the institution.

In 1997, the then-President of the Bank, James Wolfensohn, was reported to have supported the Bank as a "sunrise" institution, "a bank that would not just lend to developing countries, but would also provide a diverse range of services to the entire development community".¹⁰³ Such a concept suggests increasing the diffusion of the Bank into still further new roles, and would appear to lead in the opposite direction from the notion of the tighter, more focussed institution, discussed above. Whether the Bank, already shaken by several major reorganizations in the past decade, can simultaneously take on these functions and become more effective as an organization, seems doubtful, but that will not be clear for several years.

Conclusion

There is no doubt that there has been a process of learning

¹⁰³Get source from Stern.

over the past 50 years. With 20-20 hindsight, there is no doubt that early Bank and Fund programs and policies could have contributed even more than they did to the international economy. There is also little doubt, at least in this author's judgment, especially in light of thought and policies at the time, that the Bank and the Fund contributed to accelerating both the learning process and the adoption of less inappropriate economic policies.

There are more significant questions about the role of the two institutions over the next 50 years. The Fund is highly regarded, and although it has lost its original role it makes a useful contribution to developing countries in supporting their policy changes in times of balance of payments difficulties. It may also be desirable to strengthen the Fund's role in crisis management as private capital flows increase in importance.

In the case of the Bank, it is relatively straightforward to make a case that there are still low-income countries that could benefit greatly from Bank lending and support, but there are questions as to whether the Bank has the capacity to focus on those activities.

Complicating the issue is the concern that any significant attempt to reorient the institutions -- especially if amendments to their Articles would be needed -- might trigger a political process that resulted in a net loss in the contribution of the two institutions.

In pondering these issues, one striking fact should be borne in mind: the most effective institution over the past half century

-- as judged by world economic performance -- was the GATT. The WTO came about, almost without planning, because it was in the interests of the major trading nations to strengthen the organization. Whether there is sufficient perceived need, on the part of the major industrialized countries, for a restructured and focussed Bank, or a merged Bank and Fund, or a reassignment of industrial countries' exchange rate policies to the Fund, is an unanswerable question.

Change could, of course, come from the IFIs themselves. For crisis management, the Fund is seeking to develop support for enlarged resources for that role. There are incentives for the institution's staff to seek such an enlarged role.

If the arguments of the previous section as to the Bank's future role are broadly acceptable, however, it is important for academic economists and others in the policy and research community to coalesce around the broad outlines of a workable mechanism (or to develop an alternative modality). Otherwise the danger arises that, at some point, politicians will decide to reform the IFIs, and an absence of prior analysis will enable them to proceed along lines less promising than they might have been if a blueprint available for which there was a reasonable consensus.

Table 1

**Classification of Articles and Use of Data from and Reference to a World Bank,
IMF or GATT Source, 1950-1994**

<i>General Journals (JPE, AER, EJ)</i>						
	1950	1960	1970	1980	1990	1994
Total (1+4)	83	78	135	150	160	149
1. International (2+3)	18	16	36	34	30	24
2. Empirical	6	7	21	17	13	16
Data	1	1	4	8	3	3
Reference	1	0	3	8	7	9
3. Analytical	12	9	15	17	17	8
Reference	1	3	1	1	2	1
4. Other (5+6)	65	62	99	116	130	125
5. Empirical	10	25	44	57	64	67
Data	0	0	0	1	2	1
Reference	0	0	0	1	2	2
6. Analytical	55	37	55	59	66	58
Reference	0	0	1	0	2	0

Table 2

Classification of Articles and Use of Data from and Reference to a World Bank,
IMF or GATT Source, 1980-1994

<i>International Journals (JIE, JDE, EDCC)</i>			
	1980	1990	1994
Total (1+4)	101	110	100
1. International (2+3)	77	93	75
2. Empirical	38	49	40
Data	13	23	18
Reference	15	36	21
3. Analytical	39	44	35
Reference	6	11	10
4. Other (5+6)	24	17	25
5. Empirical	19	14	22
Data	0	0	4
Reference	1	4	9
6. Analytical	5	3	3
Reference	1	1	1

Table 3

**Classification of Articles and Use of Data from and Reference to a World Bank,
IMF or GATT Source, 1950-1994**

All Journals (AER, JPE, Economic Journal, Economic Development and Cultural Change¹)

	1950	1960	1970	1980	1990	1994
Total (1+4)	111	105	166	187	194	181
1. International (2+3)	36	29	55	50	56	43
2. Empirical	12	14	37	30	38	34
Data	1	3	7	11	14	9
Reference	1	1	7	15	26	20
3. Analytical	24	15	18	20	18	9
Reference	1	6	1	3	2	1
4. Other (5+6)	75	76	111	137	138	138
5. Empirical	13	30	54	74	71	80
Data	0	0	0	1	2	5
Reference	0	0	0	2	2	5
6. Analytical	62	46	57	63	67	58
Reference	0	0	1	1	2	0

¹ The actual years for *Economic Development and Cultural Change* are 1952-53, 1961-62, 1970-71, 1980-81, 1990-91, 1994-95 because it was first published in 1952 and each volume covers parts of two years.

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